ABSOLUTE MONEY:

A NEW SYSTEM OF

NATIONAL FINANCE,

UNDER A

CO-OPERATIVE GOVERNMENT.

BY

BRITTON A. HILL,

AUTHOR OF "LIBERTY AND LAW."

ST. LOUIS:
SOULE, THOMAS & WENTWORTH.
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Preface

About two years ago I published a work, *Liberty and Law under Federative Government* now out of print, in which I purposed to point out such defects in our federal and state governments, in their representation and legislation, as had made themselves especially prominent during the history of our existence as a nation. One of these defects, and probably the one that touches men most closely, I conceived to be the lack of a true and scientific money system; and consequently I proposed to substitute for our irrational medley of bond money, legal tender money, national bank money, and gold and silver money—an absolute National Money, irredeemable in metallic coins or interest-bearing bonds, but convertible into all the commodities of the nation, by making it the exclusive legal tender money of this country. The whole plan of my work compelled me to treat this subject in a very condensed form; too condensed, perhaps, for general comprehension. This and the fact, that the appearance of my book was closely followed by the great financial crisis which I had foreshadowed in it, and the causes of which I had explained, brought me many verbal and written requests to elaborate that money scheme more at length, and remove the various objections that had been raised against it. The result is the present work, which will be, I trust, explicit enough to make any mistake regarding its scope and purpose impossible. But as this age is not one for voluminous books, and as especially in works of finance, it is necessary to cultivate the utmost possible condensation, in order to secure even a limited number of readers, I have left out everything that did not strictly pertain to the main point in issue, or illustrate the various phases of my system. On the other hand, I have endeavored to represent the chief features of that system from every standpoint, historical and critical, that seemed to me calculated to throw additional light upon it. If I have been at all successful in this, may I not hope that my work will receive the careful attention of our prominent financiers, and of the members in Congress to whom the establishment of a national money system has been entrusted by the constitution ?

Nearly one hundred years have now elapsed since the people of these United States were joined together into one grand nation by the bond of the Union. Various attempts have been made since by unscrupulous demagogues to loosen that bond, and we all remember how very near the last attempt came of being successful. Even apart from its financial merits, therefore, it seems to me that my money system ought to recommend itself to the people of the United States as the strongest safeguard against any renewed attempt to dissolve the Union. With a large national debt, such as we have now, the danger of disunion increases constantly; since the parties in favor of dismembering the Union can urge the powerful plea, that they would thus escape the payment of their share of the national debt and the oppressive taxation entailed by its interest account. But a conversion of that debt into a national circulating medium would make a separation of the

Union next to impossible. Producing a just co-operative financial system, every citizen would be interested in upholding the national unity and integrity, since their breaking up would plunge every one into poverty and bankruptcy. Many years ago one of the foremost of German patriots and philosophers John G. Fichte —the first of his age who foresaw and foretold the unification of the German states under the leadership of Prussia— urged the adoption of a money system similar to that proposed by me, mainly upon this ground, that it would cement a united German Empire closer together than any other measure could effect; and the renowned Minister of Prussia, to whom he dedicated his work, Von Struensee, far from dismissing the scheme contemptuously, as the impracticable dream of an idealist, gave it his careful consideration, and expressed to its author his high appreciation of the work. The proposition, indeed, is very simple: A nation requires a national money. It must be a separate sovereign financial body just as well as it is a separate sovereign political body amongst the nations of the earth. It cannot afford to be dependent upon foreign countries for its money medium of interchange; nor can it afford to be dependent upon the money monopolists amongst its own citizens. Omnipotent in executing its own laws, in calling forth armies, in building fleets and providing in infinite ways for the public welfare; ought a government to be impotent in that one matter of creating an absolute money, "without which it can execute none of those prerogatives.

This, however, is only a collateral plea in favor of my money system, which must stand or fall by its claim; that it is the only rational scheme of finance for a co-operative government, such as ours professes to be. This claim I have endeavored to substantiate to the best of my ability, firstly, negatively, by showing that all other systems of money —whether of gold and silver coins, or paper money issued on a so-called specie basis, or on collateral interest-bearing bonds, or on real estate mortgages— are inadequate, productive of financial disasters and oppressive upon the people; and secondly, affirmatively, by showing that my system of Absolute Money is adequate for all possible contingencies, subject to no fluctuations, and the cheapest, while at the same time the safest of all money issues.

This work is, therefore, divided into two parts: the first, mainly historical and critical; the second, mainly affirmative and explanatory of the new scheme. Having shown how gold and silver money proved inadequate to conduct the business of the world at an early stage of man's commercial history, I have proceeded to trace the various ways in which money of account was enlisted in behalf of commerce and industry, through the medium of credits, bills of exchange, settlements at the fairs, bank issues and government bonds, until it culminated in our own country in the issue of a legal tender currency during the late war. Whilst fully recognizing all the benefits that have arisen from these various phases of money of account, it has been my chief aim to point out their respective defects and inadequacies; and, I think, I have fully and fairly demonstrated, that in all cases where the establishment of such money has been followed by final depreciation and bankruptcy, the result has been due to the circumstance that the

money purported to be redeemable in another kind of money, namely, gold and silver coins, in face of the fact that such money of account was issued simply because there was not gold and silver enough in the world to meet the demand for money, and that hence such redeemability in coin was an impossibility. In fact, the only reason why paper money has hitherto failed to realize the object of its issue, has been, that it has always been only money of a secondary nature; gold and silver remaining the primary money. This necessarily led to a competition between specie and paper money, and necessarily left the victory to the former, which was always the only legal tender recognized by law until the issue of the legal tender notes in 1862, by the United States.

Hence my system of ABSOLUTE NATIONAL MONEY provides, that after its adoption gold and silver shall no longer be a legal tender, and that the money to be issued by the federal government alone, shall be clothed with that sovereign prerogative. Under its operation there will consequently be only one kind of money in general circulation, and a conflict between it and metal coins will be impossible. Nor will there be any other kind of bank currency which could interfere with its systematic operation. The whole National Bank system will be abolished; the notes of those banks will be withdrawn from circulation and substituted by the Absolute National Money, which will be issued in place of the bonds held by those banks. This does not involve any interference with, those banks as banks of deposit and discount. It simply deprives them of the powers they previously exercised as Banks of Issue; and this, I take it, will be of equal advantage to both parties, the government and the National Banks. The government will save a heavy payment of interest, the banks will be freed from keeping a reserve fund of legal tenders, from irksome rules and regulations, from the federal tax on their circulation and deposits, and from the danger of being called upon in the future to redeem their notes in legal tenders or specie.

But it does not follow, that because my system of money abolishes coin as legal tender, gold and silver will become unpurchaseable. The United States absolute money will have the power to buy gold and silver as well as any other commodities, and I have no doubt, that in the course of time, it will be able to purchase these metals —which, as Benjamin Franklin justly remarks, "are intrinsically not worth as much even as iron or lead"— at far lower prices than they command now, when their value has been artificially increased by their use as sovereign money. Any bank that desires to buy gold either for hoarding purposes or for foreign exchange, and any individual who likes the glitter of gold, or needs gold, will always be able to purchase it; but I believe the number of buyers will be exceedingly small. It is much more likely that the people will hasten to exchange their coins for government bank-notes; since the government will, of course, have to make such exchange for all coins that bear its stamp. The mints, it is true, would be stopped, and no further issue of American coins would be made; but those coins that are still in circulation, will have to be redeemed by the new government money.

I am well aware that my plan of an exclusively Legal Tender national money will meet much opposition. It is surprising, laughable, but none the less true, that although the business of this country has been carried on, ever since our existence as a nation, chiefly by paper money, to redeem which in gold and silver, has always been, and must always be, an absolute impossibility, the majority of the people, nevertheless, imagine that trade is really carried on by means of specie. It is quite safe to say, that not one thousand in a million of dollars of our business transactions has ever been paid in gold and silver, even when gold and silver money was the only legal tender; and yet the people firmly believed that we had a specie basis, and a large number of our financiers clamor now for a return to a specie basis, and have even succeeded in persuading Congress to fix the year 1879 for the repeal of the Legal Tender Act, and the restoration of gold and silver as the only money recognized by law. I think I have conclusively shown in this work that the pretence of having a specie basis is a fraud, delusion and a deception, and I challenge all critics of my scheme to point out to me how it can be other wise. Neither the Secretary of the Treasury, nor one of the members of Congress and senators who have spoken so loudly in favor of that act establishing a return to specie payments in 1879, have answered the question how it was honestly possible. For an honest specie payment means, that the government and the National Banks now in existence should have a specie dollar in their vaults for every dollar of their currency issue. No man in his senses will maintain that this is practicable. But if the government and the National Banks cannot keep on hand an amount of specie equal to their circulation —not to mention their deposits— is not the whole issue of that circulation, in excess of the specie on hand, a fraud and a delusion ? If a bank has only $100,000 of coin in its vaults, and an outstanding circulation of $300,000, is it not false to say that the $200,000 in excess are also based on specie ?

Before the passage of the Legal Tender Act, the great financial misfortune of this country was, that while the people of this nation carried on their business transactions almost exclusively by means of paper money, their government repudiated their money, and insisted upon the exclusive payment of gold and silver for duties and imposts. The people and their government were thus directly at variance with each other. What was money *de facto*, was not money *de jure*.

The passage of the Legal Tender Act was the first great step toward establishing harmony between the people and the government, and to proclaim officially the fact that gold and silver had been dethroned. How effectively this step eradicated the popular belief in the prerogative of specie, which the previous financial conduct of the government had still kept alive and fostered, has been shown repeatedly during the last thirteen years. There has never been a desire manifested in all those years to exchange the legal-tender notes for specie, except for special purposes. It is true that the price of gold and silver rose to startling figures at various times, but this was due partly to military reverses, though chiefly to speculation and coin gambling. The prices of other commodities neither rose nor fell as gold fluc-

tuated in Wall street, and hence the real holders of the national bank-notes had no inclination and no interest to exchange their notes for gold. I consider it, there fore, a great national calamity that now, after the idolatry of gold has been nearly extirpated in this country, so many of our public men should have exerted their energies to revive it. The passage of the Legal Tender Act was the greatest blessing conferred upon the American people since the establishment of the Union; it would be nothing less than national suicide to repeal it now, and reinstate the despotic rule of specie. Has not the experience of the past been sufficiently instructive to warn us of the result which must inevitably follow a further reduction of our money medium, such as would be necessarily attendant upon a restoration of a gold basis ? The financial prosperity of this country never was so general, and commercial failures never touched so low a figure as during the years 1863-1867, when the volume of our currency was at its highest. Then the effects of Secretary McCulloch's policy of contraction began to be felt; and what has been the result ? A gradual increase of commercial failures at a rate simply frightful to contemplate, and a general paralysis of every business enterprise, which culminated in the great crash of 1873. The building of railroads has been stopped, our factories are closed, our commerce is languishing, our laborers are out of employment, and the tide of immigration from Europe has been checked by the reports of our financial distresses. And the reason ? There is work enough to be done, resources enough to be developed, and not only enough, but rather too many for the instrument wherewith to operate: Money ! We want a larger lever for the work before us, a greater amount of money wherewith to undertake our enterprises again.[$]

We are told that the regulation of money does not pertain to the functions of government, but should be left exclusively to the people themselves, and that government should confine its activity simply to the protection of the life, liberty and property of its citizens. I fear, however, that this desire to limit the authority of the government as much as possible, overleaps its own object. The mere fact, that every nation has been compelled to erect mints, and coin the gold and silver brought to them, by impressing the government stamp upon the metals, shows that government cannot at any rate leave the entire regulation of the money question to its citizens. It must interfere to some extent, and the only question is how far its interference shall extend. I think I have conclusively shown, that government must take control of the whole subject of money issue, and forbid every outside interference with it. Under any other condition a scientific money system is impossible. The United States government might with equal propriety confer its political and sovereign prerogatives, to make war and to levy taxes, upon the states and private corporations, as to allow the states and banks to create money. The federal constitution speaks in unmistakeable terms on this subject. The founders and statesmen of our republic had no doubts in regard to it, as I

$ War-time prosperity was the result of huge government orders for war supplies. This government demand stopped in 1865. The exact-same people who gave you legal-tender and national banks, now gave you financial disaster.

have shown by quotations from Franklin, Jefferson, Calhoun, and others. They saw clearly the danger of giving the states and private corporations the right to create money. They wanted the nation at large to be the exclusive maker of this money; the nation, which alone could afford it adequate support by its wealth, sovereignty and power. But popular prejudice in favor of specie was still too strong for them at that time. Even as it needed "a great war and the most serious necessities of the state before the founders of the bank of England could introduce amongst the people of great Britain the blessings of paper money," to which, though it was irredeemable from 1797 to 1822, "that country has been mainly indebted* for its subsequent prosperity," so it required a great civil war and irresistible necessities to force our government in 1861-4 into the doing of what should have been done at the time of the formation of our Union; the issue of a national money, not redeemable in specie, but made by law a legal tender all over the country, and receivable by the government for all taxes and dues—with the unfortunate exception of duties and imposts, for which only the demand notes of 1861 and specie were made receivable. All that remains to be done now is to carry out that system of legal-tender money to its logical completeness, by making it also receivable for imposts and duties, by repealing the acts creating the National Banks, and redeeming their notes with the new government legal-tender money, and by issuing that money for the purchase and cancellation of our interest-bearing bonds, thus making it the only money in the country, and thereby demonetizing gold and silver forever. The national banks will thus be divorced from the Treasury and from Congress; and it will be their interest to organize under state laws as joint stock banks. The issue of the national money by the Treasury, would be based on federal bonds, and the money delivered to the new banks would be subject to the safeguard of regular discounts passed upon by their Boards of Directors. The unthinking and ignorant may call this a visionary, impractical scheme, the mere suggestion of which would be received in Europe with laughter and ridicule. It may, therefore, not be inappropriate here to state that, apart from the proofs furnished by the critical and historical part of my book, which demonstrate clearly that the financial world has steadily drifted nearer to the adoption of such a money scheme as I have proposed, and apart from the open advocacy of such a national paper money system by the most brilliant American statesmen of every period of its history, from its foundation to the present time, it has numerous supporters amongst the foremost of European financiers. In illustration I will cite only one, Mr. R.H. Patterson, an Englishman, a tory and a thorough conservative, who is recognized as the ablest writer on finances in all England, and from whose writings I have quoted liberally in various parts of this book.

The gist of my whole money scheme lies in the true definition of money, as I have elaborated it in the chapters on ABSOLUTE MONEY; and this is what Mr. Patterson says on the subject:

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* The *Economy of Capital*, by R.H. Patterson, page 456. ---What a way to prosper ! Start a war against Napoleon and print paper money. And destroy the chances of liberating Europe from the clutches of the international money power.

"The quality which gives to gold, paper and other substances their circulating power as money, is simply the agreement on the part of nations to recognize those substances, either of themselves or when presented in certain forms as representatives of wealth." See *Economy of Capital*, page 20. And again: "Demonetize gold, ... and no man would give a dollar for a whole ounce of it. ..... It would descend from its high estate to the rank of an ordinary metal." And on page 25: "Demonetise the precious metals, and a labourer would no longer give a week's work for a bit of gold and silver, which he could do nothing with except to give to his wife as an ornament. Men would no longer consent to be paid in bits of metal, which no grocer, or butcher, or tailor would accept in exchange for his goods."

In another part of his work (pages 447 and 451), he expresses himself as follows:

"Paper money has already established itself as a *representative* of gold money; what it must next do is to establish itself as a *substitute* for gold money —just as the gold coins of old, from being representative of oxen, became by-and-by a substitute for them in commercial transactions, and invested with a recognized value of their own. ..... Startlingly various as are these forms of currency," (in various parts of the world), "they all agree in this, that they are recognized by the people as mediums of exchange, *and this is the sole, indispensable requisite of any form of money.*"

These unmistakable propositions of an eminently conservative financier, each of which is fully in accordance with my scheme, will, I trust, put an end to the flippant objection of coin worshipers, that a money system, which proposes to establish an irredeemable paper money, must have its origin in a visionary, impracticable brain, and result from ignorance of, or inexperience in the actual workings of the money market. Nay, I might go further and say, that many of the clearest-sighted, most experienced and prominent financiers in the whole history of the civilized world have advocated and approved of the principles upon which my money system is founded.

It is my opinion, that the carrying out of the specie basis act in 1879 will result in a repudiation of the national debt, and will force the great commercial and industrial classes of our citizens into bankruptcy. It will be the consummation of the bold, treasonable plan for cornering the nation in the interest of the bondholders, that I predicted in May, 1873, would result in universal financial distress. (See *Liberty and Law*, pp. 169-171.) I am not able to conceive of any other financial plan, than the one herein proposed, to prevent that impending disaster.

Let me, then, hope that if this work of mine is criticised, as it undoubtedly will be, criticism will not adopt the supercilious tone which seeks to dismiss a subject of such importance, by simply representing it as too visionary to deserve reply, but that I may be met by strict replies to the various propositions advanced by me. I think that I have stated them clearly enough; let those who oppose them state their propositions, by which mine are to be controverted, in language equally clear and precise, and with equal candor and fairness.

BRITTON A. HILL.

St. Louis, July 1st, 1875.

PART FIRST.

METALLIC MONEY

AND

MONEY OF ACCOUNT.

The long and short of it, without any need for long quotes and convoluted explanations, is, Mr. Hill uses the term "absolute money" for government-issued paper notes. These treasury notes would be spent into circulation; their number would be according to *per capita*. Observation indicates what number of units per person supported prosperity. The rate of unemployedness generally indicates the rate of shortage in currency.

Just as we need a unit of length, unit of weight, unit of volume, we need a unit of account.

The concept of money by quantity was known long before Mr. Hill.

Mr. Hill refers to John Calhoun (1782-1850). From Mr. Calhoun's three addresses on banking, treasury notes, and the independent treasury, the essence of his concept is clear: issue and spend into circulation non-legal-tender treasury notes to supplement silver coins. The non-legal tender status would act as a regulator against over-issue: if there are more than needed treasury notes in existence, people simply return it to the government in payment of their taxes and dues.

Mr. Hill would regulate the number of notes by statistics.

Mr. Hill himself cites that during the war a $50.00 per capita circulation supported prosperity ---therefore a $50.00 per capita circulation seems to be a good starting point; then experience and statistics will indicate if adjustment needed to be made.

Starting from 1848, mines in the United States produced enough silver to provide sufficient number of silver coins. Making the unit of account 400 grains of silver, and complimenting the silver coins with treasury notes and fractional paper currency, could provide the nation with a stable (in purchasing power) medium of exchange to facilitate all their productive transactions.

Mr. Hill very noticeably does not deal with the problem of banks and banking. As long as banks exist, they will regulate *you*, not you them. Bankers will always war against the government until they make the government their tool, and the people their indentured servants.

ABSOLUTE MONEY.

PART FIRST.

METALLIC MONEY AND MONEY OF ACCOUNT.

CHAPTER I.

NATURE OF METALLIC MONEY AND MONEY OF ACCOUNT.

METALLIC MONEY AND MONEY OF ACCOUNT CREATION OF MONEY OF ACCOUNT TO FACILITATE EXCHANGES — ITS DISTINCTION FROM METALLIC MONEY — SIR JAMES STEWART — MONTESQUIEU — MARQUIS GARNIER — STEPHEN COLWELL.

In the most ancient times gold, silver and precious stones were used as a medium of interchange to facilitate barter; partly on account of the smallness of their bulk, and partly on account of their rarity and consequent intrinsic value. To make their use for this purpose practicable, it was, of course, necessary to weigh them. If we assume that one horse was considered to be about an equivalent exchange for one pound of gold, and that two oxen were in like manner held to be an equivalent for one horse, and that a certain quantity of wool, or grain, or land was an equivalent for two oxen, then the gold-price of all these articles of trade was at once established; but for each minor quantity of wool, or grain, or land, the pound of gold had to be subdivided. This subdivision very naturally led to the melting and moulding of gold and silver into regularly shaped pieces of uniform weight, and in course of time to the stamping of them by the government of each separate nation, as an indisputable guarantee of the correctness of the amount of gold or silver declared by law to be contained in each piece; the earliest written mention of which we have in Genesis 24:22. In Exodus xxx. we have further mention of such governmental coin (the Hebrew shekel), as an interchange for actual commodities; that is, for the animals and spices, that were to be offered as a sacrifice to the Lord, and as a yearly tax levied by the priests on the children of Israel. A half shekel was annually demanded of every one " from twenty years old and above," as "an offering to the Lord," and "for the atonement of their souls." Strange to say, although the atonement of the souls required only a half shekel, ordinary commodities, more immediately necessary to physical life, demanded much higher prices. "A little while and man took the greatest stride of all in the march of civilization. He gave credit." (Lawson's *History of Banking*, p. 2.)

In other words, man, finding metallic, or, as it is called, "real" money, a very cumbersome means for the interchange of commodities, created an "ideal" money, a money of account, by means of which to conduct his most important commercial transactions. Who first invented this means of commercial inter-communication no one knows. His name is as unknown to us as the name of the still greater genius, who invented the alphabet, the medium of interchange of thoughts by written language. For he made possible the universal inter-communication between all parts of the world

and all succeeding ages on all subjects; while the inventor of money of account could utilize the alphabet only for commercial inter-communication.

It is pretty certain, that the Jews, the Phoenicians, the trading towns of Greece, Carthage and Rome made use of money of account, in a sort of way, and that the Jews, after their dispersion, and after the downfall of Rome, at an early day introduced the system of drawing Bills of Exchange; but historically, the first systematized issue of money of account must date back to the establishment of the Bank of Venice, which was organized in the twelfth century, when the state of public affairs in Europe, so rudely shaken by the invasion of the Huns and Goths in the fifth century, and kept in a condition of constant turmoil and political convulsion for hundreds of years, was gradually being restored to comparative quiet.

As it is altogether immaterial for the purposes of this work, how money of account first gained historical recognition, we may as well take the Bank of Venice as the real originator of such money, first, however, establishing the distinction between its credits and the metallic money, previously in exclusive use.

The metallic money was an actual valuable substance, whether of gold, silver or copper, passing from hand to hand. When coined,it had its several names, of units and subdivisions, each of which names represented a certain quantity of gold, silver, or copper; the government imprint guaranteeing the purity and weight of each new piece.

Money of account was invented to do away with this cumbersome transfer of the actual coin from hand to hand, by making transfers in writing. Its effectiveness can be readily understood from the following illustration:

A merchant B. in New York has sent $1,000 worth of wheat to merchant C, in London; and hence has $1,000 credit on C.'s books. He might order C. to send him $1,000 in coin; but he does not; for there enters into his office merchant D. of New York, who owes merchant E. of London $1,000, or more. Now merchant D. says to merchant B.: "You have a credit of $1,000 in London. I have a debit there of $1,000. To cancel my debit, by sending over the actual coin in a ship, will cost me, say, ten per cent. I will pay you eight per cent., if you will transfer your credit to me, since that will serve all my purposes." B. of course, makes the transfer; and E. goes to C. in London to collect his money.

Now, if this written transfer is worth more to the transferee than the coin itself —as it would be in the supposed inter-communication between London and New York merchants— then the written transfer commands a premium; as London Exchange generally does. This is the reason why the written transfers on the books of the Bank of Venice often commanded from five to twenty per cent. premium over coin.

But if such a sign of transfer, or draft, was not equal to the same amount of coin, represented by it; that is, if a person should demand the delivery of the actual coin required by the draft and not be able to obtain it, then the draft or token of transfer would naturally shrink in value and be quoted at a discount.

This relation between metallic money and money of account produced, therefore, a constant fluctuation of both kinds of money, to the great injury of traders.

Before entering more minutely into the causes of these fluctuations and prescribing the only mode to get rid of them, I shall endeavor to fix the distinction between the two kinds of money more impressively upon the mind of my readers, by quoting a few standard authorities.

Sir James Stewart, in his "Political Economy," says: "Money, which I call of account, is no more than a scale of equal parts, invented for measuring the respective value of things vendible. It is, therefore, quite a different thing from money coin, and might exist although there was no such thing in the world as any substance, which could become an adequate and proportional equivalent for every commodity. It performs the same office, with regard to the value of things, that degrees, minutes, seconds, etc., do with regard to angles, or as scales do to geographical maps, or to plans of any kind. ..... Money, it has been said, is an ideal scale of equal parts. If it be demanded, what ought to be the standard value of one part, I answer by putting another question. What is the standard length of a degree, a minute, or a second ? None; and there is no necessity of any other than what, by convention, mankind think fit to give." Sir James Stewart's *Political Economy*, page 3, chap. 1, vol. 1. Fourth edition, pages 225-6.

I shall show further on, however, that Sir James Stewart's definition of money of account as a mere measure is not quite correct, and does not at all apply to the National Legal Tender money, which is the basis of the money system proposed by me, for the co-operative government of the United States of America.

Montesquieu asserts the practice of making use of money of account at his time, even among some of the tribes of negroes on the coast of Africa. "We are informed," he says, "that the blacks on the coast of Africa have a sign purely ideal for fixing the value of their commodities. When they wish to make an exchange of them they say: 'Such an article is worth three *macutes*; such another is worth five *macutes*; and such another ten *macutes*; and yet a *macute* can neither be seen nor felt. It is entirely an abstract term and not applicable to any material object; for they do not exchange their merchandize for three, five or ten *macutes*, but for some article worth —or rather estimated, or held to be worth— the same number of *macutes*."

Marquis Gamier, the author of the famous "History of Money, from the Highest Antiquity to the Reign of Charlemagne," explains the distinction between metallic money and money of account, as follows:

"We distinguish, therefore, between two kinds of money; real money, or coins, and money of account, which is the expression of values, or the specification of prices. The valuation of merchandize, made by the seller, or the offer made by the purchaser; the accounts; the promises to pay; the stipulations of hiring; the quotations of stocks, and the rents of farms; all, that in every transaction precedes the act of payment, must be carried on by means of account. Real money intervenes only for actual payments. ..... Real money consists of coins of metal, of which the form, material, impress and appearance may be readily changed, without occasioning the slightest derangement in the daily dealings of society, or in agreements and contracts already made. ..... While every alteration in money of account has been regarded as a

public calamity and a source of public and private disorders, and has always awakened among a people general discontent, changes in the impression or the forms or denominations of coins is a common event, inflicting no injury upon any interest, and offending against no established habits of the people." ---*Histoire de la Monnaie* by Marquis Gamier. Vol I., pp. 72-76.

Mr. Stephen Colwell, probably the best American writer on financial subjects, and author of "The Ways and Means of Payment" —whose conclusions, however, which always lead him to consider a specie basis indispensable for banking and for currency, are rather at variance with the facts he cites and with his own premises, all of which tend to establish the uselessness and absurdity of a specie basis— speaks thus of the difference between "real" and "ideal" money:

"We have seen that the money of account occupies the whole ground of the expression of prices; the whole ground of books of account, so far as prices, amounts, or sums of debt or credit are stated in them; the whole ground of the statement of sums or amounts in bonds, notes, or bills of exchange, checks and other securities; the whole ground of financial estimates, statements and computations; in fine, all that relates to money, where actual equivalents are not employed, belongs to the domain of money of account. *The formation of a money of account*, which invariably occurs among all trading people above the condition of savages, *takes away at once from gold and silver, whether coined or weighed, all application or use as a measure of price or medium of comparison*. Among savages, the precious metals are no doubt directly compared with the articles for which they are bartered; with them it is literally so much of one thing for so much of another. It is not so in civilized life, where commodities are very seldom sold with any thought of payment being exacted in gold or silver. The money of account not only serves to this extent the use of coins or bullion, but it saves even an actual reference to them. It is, therefore, an immense economy in trade. It narrows the use of the precious metals perhaps more than any other agency."

chapter II.

The Bank of Venice.

The Bank of Venice — History of its Origin — Its mode of operation —Deterioration of Metallic Money through wear and counterfeiting — Consequent Superiority and Premium of the Venitian Bank Issues — Their Legal Tender character — Mr. Darus.

The way in which this money of account was first systematically established is very graphically described by Mr. Colwell, in the same excellent work, from which I have quoted. It originated, strange to say, in necessity, and was made current by compulsion, like the demand and legal tender notes of the United States. Lombardy, in the twelfth century, was a sort of province of the German Empire, or, as it was commonly called, the "Holy Roman Empire," though it was neither holy, Roman, nor an empire in point of fact. It had been thus tributary to Germany since the days of Charlemagne, in 774. In the course of time Lombardy absorbed nearly the whole commerce of the civilized world, and Venice and Genoa grew up to be the chief maritime cities of Europe. Milan and other places likewise became centres of commerce, and all of these large cities, feeling themselves secure in their power and wealth, adopted a republican form of government, and in course of time began to renounce their allegiance to the German Empire. This caused the long struggle between the German (Hohenstauffen) Emperors and the so-called "free cities" of Lombardy, which lasted for full a century, and extended, in another form, even to a much later date. It is generally known in history as the war between the Guelfs and the Ghibillines; and in its recent form as the conflict between the German Empire and the Church of Rome.

Now, in 1171 the Republic of Venice was engaged in one of these periodical contests with the Emperor of Germany, Frederic I, otherwise known as Frederic Barbarossa, and at the same time it had to equip a fleet against the Emperor of Greece. Rich as the republic was, it now stood sorely in need of money. After much deliberation in the Council of Ten, as to the best way of raising the necessary funds, it was determined to levy a forced loan upon its most opulent citizens. The money thus collected was used to stock a bank, called the Bank of Venice, each contributor becoming a shareholder and entitled to a four per cent. annual dividend on his loan to the State. These forced loans were entered in a book; and as, in course of time, some contributors found themselves pressed for money, they proposed to transfer to their creditors their credits on the books of the bank in lieu of money payment. In this way such transfers gradually became recognized as a very convenient way of settling accounts; and this facility of transfer, coupled with the security, guaranteed by the power and wealth of the Republic, led to a very rapid circulation of the loan. Gradually all the chief merchants and capitalists of Venice desired to have a share of it. The subsequent operations of the *Banco del Giro* of Venice, as a means of interchange, are thus described by Mr. Colwell, p. 295:

"If there were a thousand accounts opened in the bank by the chief men of trade in Venice, they would be all paying as well as receiving; and the sums to be paid would be mainly to each other. There would, therefore, be a vast sum in the aggregate, payable

yearly by persons in Venice to persons in Venice. If the whole number of such persons be taken by conjecture, as above, at a thousand, then nearly the whole sum owing by them would be receivable by all of them. It would, to a large extent, be a mutual debt among the thousand: each one having to pay to others not far from the same amount he receives. If the whole sum to be paid and received annually was a hundred and twenty millions, the monthly payment would be ten millions, and the daily over three hundred thousand. The amount of bank funds, which would be sufficient to meet such a daily, monthly, or yearly aggregate, experience and time alone could teach. It would depend on the rapidity of the movement, or the regularity with which the paper matured; on the degree of confidence subsisting among the parties, which would lead them to favor each other by short loans, etc. The whole fund of the bank would thus move in a circle among its customers, each one receiving and paying yearly according to the extent of his business."

It was this moving of money in a circle which caused the Bank of Venice to be known as the *Banco del Giro* —a term which would be far more applicable, however, to such a banking system of the United States, as I have proposed in this book.

There was, however, another element of dissatisfaction with metallic money, or coin, which must be mentioned in this connection, and which contributed greatly to the popularity, not only of the Bank of Venice, but of all the other banks, that subsequently arose and followed in its footsteps, though more or less enlarging its original functions. This element of dissatisfaction was, that the difficulties encountered in the use of coins had become too great and manifold for endurance. Robbery, shipwrecks and piracy threatened the possessor of coin in every way. Besides, there was the secret and nefarious practice of abstracting from the value of the coins by plugging, gutting and sweating; not to mention the art of counterfeiting, which had an easy time of it with metallic coins.

But, worse than all, there was inexorable time —subject to no arrest, indictment or punishment— which deteriorated those coins within a few years from ten to twenty per cent by their mere use as a circulating medium, and thus destroyed their legal tender quality.

Paper transfers were attended by no such risks. If in the shape of checks or bills of exchange, they could easily be concealed so as to escape the eye of the most practiced thief, and if they were pay able to the order of the holder, they could not be stolen and transferred without his indorsement. Time could not touch them and deprive them of their original value; for if worn out they could be replaced, and if burnt or sunk in the seas, they could be re-issued. Nor was it an easy matter to clip paper money profitably; and as for counterfeiting, it is a well known fact that a well-engraved bank note is far more safe against it than the purest gold or silver coins. The best coin counterfeits ever made in this country were of the old Mexican dollars, which were of unusual silver purity. This is the reason why, in China, the use of coins —except when weighed by government officials— is altogether prohibited, and that the use of paper money has been substituted in lieu of it. In short, the very ground why gold and silver are commonly esteemed superior money —namely, that they are supposed to be of great intrinsic value— is one of the reasons which makes them useless for the

purposes of circulating money. It is that intrinsic value which spoils their usefulness by inviting theft —counterfeiting, clipping, plugging, gutting and sweating.

Besides, what does it matter, after all, when I exchange my property for that of B., by means of a certain medium, of what substance that medium is composed ? It has effected its object, the exchange, and nothing further is necessary.

Nor should it be forgotten that the Bank of Venice transfers, very soon after their first issue, were made by law a sort of legal tender —the most important characteristic of our American national currency— and the immediate effect was to make the golden ducat fall twenty per cent. below the par value of the paper transfer of the Banco del Giro of Venice. I quote from Mr. Darus' *Histoire de Venice*, Vol. Ill, p. 73:

"By degrees the government introduced the usage of making certain payments by drawing upon the bank in place of making them in specie. It commenced by receiving those drafts into the public treasury without hesitation, and when this usage became established, a law was passed that bills of exchange might be paid in money of the bank, whether foreign or domestic, when drawn for more than three hundred ducats. *These drafts could not be refused,* unless stipulation had been made to the contrary."

chapter III.

BILLS OF EXCHANGE.

Bills of Exchange—The Bank of Genoa first Issues Bank Notes—The bank of Barcelona — Bills of Exchange in England — The Jews — The Lombards — The Goldsmiths.

In this way guaranteed paper money came to rule the world; though as yet its rule was in its infancy. But soon after the establishment of the Bank of Venice, the Bank of Genoa —a century later— improved upon the Venetian system of transfers on the books of the bank by the issue of real bank bills, or rather drafts, or Bills of Exchange, negotiable, to be sure, only by endorsement, and issued only in such sums as were required; but still the forerunners of that vast system of paper money, which is now in use. No sooner had the Bank of Genoa set the example of issuing such transferable bills of credit, than it extended over all Europe; the Jews, who appear to have been the originators of this mode of money-transfer, doing their full share to perfect it, and reaping their full share of profit. The Bank of Barcelona, one of the most enterprising and flourishing commercial cities of Europe, was started in 1401, and also issued Bills of Exchange.

In England, Bills of Exchange were introduced by the Jews, to whom William the Conqueror first extended, in 1066, the right of domicile on English soil, which country they now may be said to rule financially, through the Rothschilds, and politically, through Disraeli. At first, however, they had a very hard time of it. "Aliens in blood and religion, they were contemned, hated, feared, and despised." After the atrocious massacre of the Jews at York in the early part of the reign of Richard I. (1189), they were all banished from Great Britain; and though invited to return by King John (1199), were again expelled by Edward the First (1214), whose cruelties in persecuting them are unparalleled in history. Nor did they return to England again till long after the Reformation.

Italians, well versed in the procedure of the Banks of Venice and Genoa, took the place of the Jews, and although still more usurious in their charges, met little or no molestation; a certain proof, that the Jews were punished mainly from religious prejudices. As those Italian bankers were mostly Lombards, the street on which they settled, was and is called to this day Lombard Street. It is to these Lombard bankers also, that we owe the term Bank —from *Banco*, the table, on which they displayed their treasures, (see Exodus xxx),— and Bankrupt —from *Banco rotto*, a broken table, which signified the insolvency of the dealer at the table in question.

The Lombards were, again, in their turn, supplanted by the Goldsmiths of London, who issued what were called "Goldsmiths' Notes," on valuables deposited with them, which notes became, in course of time, a general medium of money interchange. The first real Bank, however, established in England, was organized by William of Orange, who founded the Exchequer, which is still in existence.

chapter IV.

THE FAIRS OF EUROPE.

THE FAIRS OF EUROPE—THE FAIRS AN INTERNATIONAL CLEARING HOUSE — THE MODE OF SETTLING ACCOUNTS AT THEM — THE MAGNITUDE OF THEIR TRANSACTIONS — LEWIS ROBERT'S ACCOUNT OF THEM.

Thus the business of Europe, which was just then, 1688-1720, assuming gigantic proportions in comparison with that of former days, was carried on almost exclusively by the agency of money of account. The large Fairs, which were at that time held all over Europe, contributed still further to swell the amount of this "ideal" money. By far the greater part of European commerce was transacted at those Fairs, which, as it will appear, were actual prototypes of the International Clearing House, which I have proposed in my work on "Liberty and Law," p. 174, and the conception of which seems to have been considered Utopian by so many of my critics.

There is nothing new under the Sun, as Solomon wisely said, and I am quite willing to concede, that my scheme of such an International Clearing House is not a new idea. But I should like to insist, that it has already in former times proved itself practicable; pre-eminently at the Fair of Lyons, in France, of Leipsig, in Germany, and of Kiachta, in Mongolia.

These Fairs were concourses of merchants, manufacturers, artisans, workmen and strangers from all parts of the civilized world to buy and sell goods, provisions, manufactures, works and merchandize, and to adjust their respective accounts with each other, or settle their Bills of Exchange, which generally were made payable at a certain Fair.

It is not necessary, nor within the scope of this work, to enter into a discussion of the details of the settlements at those Fairs. The general mode of making them was as follows:

If A. owed B. one thousand dollars and B. owed C. fifteen hundred dollars, then B. asked A. to assume one thousand dollars of his debt to C, to which C. agreeing, only five hundred dollars remained to be paid in money.

Or let us suppose, that D. owed a certain sum to E., and the latter a like sum to F., and that F. again owed the same sum to G., and G. owed the same sum to H. All of these persons, D., E., F., G. and H., meeting at the Fair, it was agreed between them, that their respective debts and credits should be acquitted by a payment from D. to H. direct; which agreement was called a *virement de partie*, and which was substantially of the same nature as a transfer of account in the Bank of Venice, or a Bill of Exchange of the subsequent banks.

Few persons have any conception of the extent to which those Fairs expanded the credit system of Europe; nor is it generally known to what extent they still prevail. Every year five hundred Fairs are still held in France. The chief part of the commerce between Russia and China is still carried on at the Fair of Kiachta, in Mongolia. The transactions at the Fair of Nijni Novgorod, in Russia, also the mart of a great trade, are estimated to reach the amount of $100,000,000 during its six weeks' duration. An eminent English writer describes the modus operandi of settling accounts at

those Fairs, alluding especially to the Fairs at Lyons, which were in their day the largest, not only in France but in all Europe, as follows:

"The sixth day, all the merchants residing upon the place appear in a certain room, near the Bourse, with their book or bilans (balances), containing their debts and credits of both open debts and bills of exchange; and these address themselves to one another and to whom they are indebted, intimating unto them their readiness to transfer parcels, or, as they term it, *virer partie*, to give for debtor one (or more) who doth owe and stand indebted to them in the like sum or parcel, the which being accepted by the creditors, the sum is respectively registered or noted in the *bilan* (balance book) aforesaid; and after that time the balance is understood to be transferred, and remaineth entirely upon the risque, peril and fortune of the party that did accept the same. And in this manner here, I have observed, that a million of crowns hath in a morning been paid and satisfied, without the disbursement of a *denier* in money. **** This, in brief, is the remarkable custom of Lyons in matters of exchanges, upon every payment." (*Payment* signifies the time set apart for this regulation and cancelling or settlement of balances.) —*Map of Commerce*, by Lewis Roberts, edition of 1700, chap. 303; see also *Parfait Negotiant*, by J. Savary, 1777; Vol, I. chap. 30, p. 257.

Who does not recognize in this description the same mode of transacting business, which is current in our banks and clearing houses, and still more resembles the modus operandi of Wall street in New York, Lombard street in London, and the Bourse in Paris ?

chapter V.

Government Issues and Bonds.

Government Issues and Bonds — First government issue by the City of Florence — Bankers and Brokers control the price of Government bonds — Growth of the Bonded Indebtedness of Great Britain — Ruinous Interest of Public Debts — Growth of the Bonded Indebtedness of New York City — Present Bonded Indebtedness of the States of the World — Bankrupt Bonded Debts of the World — Bonds are both Money and Debts —The Franco-German War Indemnity and its Payment as an Illustration — Also the Issue of Bonds by Great Britain During the Napoleonic Wars — McPherson— Colwell.

By the steady development and expansion of "money of account," the so-called "real" money —gold, silver, copper and precious stones— was rapidly losing all of its original significance. Private bankers, public banks, merchants and governments, all combined to effect the overthrow of metallic money's absolute rule.

This expansion was, in course of time, still further promoted when governments began to substitute the issue of bonds for the mere transfer of credits on books, which the Bank of Venice had initiated. Thus the Free City of Florence, in the year 1341,when the government needed some $300,000 to defray the expenses of a war, and found itself unable to discharge the debt at once, formed the sum into an aggregate joint stock, divided into transferable shares, bearing interest at five per cent. per annum. As a matter of course those shares soon became articles of commerce, and rose or fell in price according to the state of public credit. Other States gradually followed the example of Florence, which was, indeed, especially calculated to win the favor of governments. For, while private individuals may experience a natural hesitancy to contract funded debts, since they feel a strong interest in leaving an unencumbered estate to their descendants, governments are restrained by no such feeling. With them it is always, "so that we get along well; after us the deluge." Hence no government will be likely to shrink from contracting a debt, when money is necessary, simply from a consideration of the tax such a debt will entail upon posterity. The main and the only question will be: "Can we raise the loan?" And the inevitable answer will be: "Yes, if you pay interest enough." Thus it happens, that governments pay at times such enormous discounts as to make the interest on their bonds realize from twenty-five to fifty per cent., as witness the sale of United States Five-Twenties during the war between the States, at the Royal Exchange in London, in July and August, 1864.

France, under Louis XIV., at the close of the seventeenth century, also followed the example of Florence and "funded" the debts incurred by that conceited monarch in his long and expensive wars. Sober England next also took up with it, but during the first years of its practice treated the loan merely as an anticipation; parliamentary provision being invariably made for its liquidation by means of various annuities and special taxes. It was not until the reign of George I. that the principal itself of the loan was transferred to posterity for payment, provision then being made only for the payment of the interest. This was done so as not to irritate the public mind by increasing the taxes to such an extent as would have been necessary for the immediate

discharge of the principal; and I may add here, not inopportunely, that the same device still serves its purpose at the present day. Every city, county and state in this country, that finds itself pressed for money, instead of laying a direct tax for the amount needed, issues bonds, and provides by taxation only for the payment of the interest.

This interest tax is seemingly so insignificant, that the public mind does not get irritated, and hence does not protest against incurring a debt, which otherwise it would in many instances, certainly never sanction. And yet this insignificant tax for the annual interest is so large, that in about ten years it makes the full amount of the whole principal of the debt originally contracted.

It may be interesting, in this connection, to look over a few tables, which illustrate the facility and recklessness with which governments contract these enormous burdens to be borne by the people, called Public Debts:

The national debt of England (loan from bankers) was in 1689	£664,263.
William of Orange increased it	£20,851,479.
	£21,515,742.
but paid off	5,121,040.
leaving to Queen Anne's administration	£16,394,702.
who contracted further debts of	35,750,661.
Leaving British debt in 1713, at the Peace of Utrecht	£52,145,363.

Then George I. came in, and with him the system of funding the public debt. Under this system, in 1748, at the peace of Aix-La-Chapelle, the debt had already risen to £79,293,713; and at the close of the Seven Years' War, which brought no advantage to England, in 1763, had nearly doubled, being then £138,865,430. The American war increased it still further, so that at the peace of Versailles, in 1783, it had again nearly doubled, reaching the enormous figure of £249, 851,628

During the next ten years it was reduced 5,73 2,993. Leaving it at the commencement of the French Revolutionary War £244,118,635.

Nine years later it was more than double that amount, being then, in 1802, £520,207,101. The wars against Napoleon, which also did England no good, left the national debt in 1814, at the Emperor's first expulsion £742,115,067. His second expulsion required another loan of forty-five million pounds, and increased the national debt to that extent. It is about the same amount now, that is, £780,000,000. The interesting question here is, whether the people of England would have voted these loans, through Parliament, if the additional debt, incurred from time to time, had been levied upon them directly, and if they had not been deluded by the supposition that posterity would have to pay the debt, and that they would only have to pay the annual insignificant interest on it? As Great Britain reaped no real immediate benefit from those wars, and was not compelled to under take them in self-defense, I am inclined to believe, that the people would have voted down each loan almost unanimously, if they had been told in dry figures that their taxes, which in 1793 amounted to only £17,170,400, would within twenty-two years, in 1815, at the close of the wars against France, amount to four times that amount, *i.e.*, £70,403,448 a year. We

have another illustration, however, closer at hand, in the financial experience of the City of New York.

In 1830 the public debt of that city amounted to about $900,000; at which figure it stood, with small fluctuations, until 1836, when it was increased to $1,282,103.58. Seeing how easy it was to increase its public debt, the city in the next year nearly doubled it, and in the following year again, and then again, so that in 1839 it had already reached the respectable amount of $7,126,790. This was still further increased to $13,316,292.86 in 1842; at which figure the debt remained stationary for full ten years.

During the decade 1852-1862, it was swelled to $21,695,506.88. Then came six years of still greater extravagance, increasing the debt by fourteen millions to $35,983,647, in 1868. One year more and it was $47,691,840. Another year and twenty-five millions more had been borrowed, making the debt $73,373,552, in 1870. Since then it has risen in the same enormous proportion.

In 1871 it was	$88,369,386
In 1872 it was	95,582,153
In 1873 it was	106,363,471
In 1874 it was	114,979,970

Thus, in nine years —from 1865 to 1874— the public debt of the city of New York has increased from thirty-five millions to one hundred and fourteen millions dollars. Of course, the rate of taxation has increased correspondingly, to-wit:

From $2.51 in 1830 to $4.33 in 1840; from $4.33 in 1840 to $6.27 in 1850; from $6.27 in 1850 to $11.99 in 1860; from $11.99 in 1860 to $25.11 in 1870; from $25.11 in 1870 to $32.31 in 1874, on each inhabitant of New York, man, woman, and child. The amount of debt to each inhabitant, which in 1830 was only $3.82, has now reached the enormous amount of $114.98.

To exhibit the way in which money values have in this manner been added to the representative wealth of the world, let us consider the following table of the comparative debts in pounds sterling of twenty-six governments in 1862 and 1872:

A very noticeable fact in this list is, that the younger states of the world have so quickly perceived the advantages of this system of creating money credits, and followed so successfully in the tracks of their elders of European descent. The Argentine Republic increases her money credits in ten years from $15,000,000 to $87,000,000, Bolivia from a mere nominal amount to $10,000.000, Brazil from $25,000,000 to $300,000,000, and Egypt from $16,500,000 to $225,000,000.

	1862.	1872.	Increase.
Argentine Republic.	£ 3,000,000	£ 17,500,000	£ 14,500,000
Austria	250,000,000	300,000,000	50,000,000
Belgium.	26,200,000	30,000,000	3,800,000
Bolivia	. . . . .	2,000,000	2,000,000
Brazil	5,000,000	60,000,000	55,000,000
Chili	2,800,000	7,500,000	4,700,000
Costa Rica	. . . . .	3,400,000	3,400,000
Danubian Principalities . .	. . . . .	5,000,000	5,000,000
Denmark	11,000,000	12,800,000	1,800,000
Egypt	3,300,000	45,000,000	41,700,000
France	396,000,000	970,000,000	574,000,000
Germany	60,000,000	120,000,000	60,000,000
Guatemala	300,000	600,000	300,000
Honduras	. . . . .	5,000,000	5,000,000
Italy.	100,000,000	275,000,000	175,000,000
Japan	. . . . .	1,000,000	1,000,000
Mexico	20,000,000	60,000,000	40,000,000
Paraguay	. . . . .	3,000,000	3,000,000
Peru	5,500,000	37,000,000	31,500,000
Portugal	33,000,000	65,000,000	32,000,000
Russia.	230,000,000	350,000,000	120,000,000
Spain	150,000,000	306,000,000	156,000,000
Sweden	3,000,000	6,000,000	3,000,000
Turkey	23,000,000	130,000,000	107,000,000
United States	75,000,000	470,000,000	395,000,000
Uruguay	4,000,000	6,000,000	2,000,000
Venezuela	5,000,000	8,000,000	3,000,000
Total.	£1,493,1009,000	£3,375,800,000	£1,882,700,000

All in all, it appears from the above table that, within ten years, twenty-six governments of the world have increased the amount of money bonds circulating, to the extent of $9,413,000,000; England meanwhile remaining stationary in her issue, and Holland alone reducing her debt or outstanding funds some $35,000,000.

I may add, that since 1872, another $3,000,000,000 has been added to the world's bond money. The public debt of the whole so-called civilized world, is at present about 4,200,000,000 pounds sterling, or twenty thousand million dollars.* All of these bonds are "payable in gold." On this enormous debt the annual interest is about one thousand million dollars; Holland paying about 2% per cent., the lowest, and Mexico 18 per cent., the highest, rate of interest. These one thousand million dollars of annual interest have to be raised by taxation for no other purpose than to perpetuate a fraud; and appalling as these sums are, they represent merely the debts of the national governments, and do not include the municipal debts of the various countries or the State or municipal debts of our own country.

It will be noticed that I speak of these bonds as both in the nature of debts and in the nature of money.[1] They constitute debts because they

* Of these and other public debts of the civilized Christian world, about £238,586,476, are at present in a stale of bankruptcy, of which £160,759,670 are owing by Spain, and £5,143,750 by Greece; the balance being divided among some twenty American States, as follows:

Costa Rica £2,363,802; Ecuador 1,824,000; Honduras 4,972,000; Liberia 100,000; Mexico 16,375,750; Paraguay 2,903,706; Nicaragua 27,000; San Domingo 714,300; Venezuela 6,616,810; Alabama 3,750,000; Arkansas 2,190,000; Florida 950,000; Georgia 4,750,000; Louisiana 4,725,000; Minnesota 460,000; North Carolina 6,100,000; South Carolina 4,425,000; Mississippi 1,600,000; Virginia 5,250,000.

1 "Nothing is, therefore, more true than the seeming financial paradox that the contracting of debts increases the circulating exchange-wealth of the world; and this paradox must necessarily

promise to perform something at a future time and levy an annual tax upon the people —called interest— in order to become acceptable as the representatives of money. They are money because in the daily transactions of trade and commerce they serve all the purposes of coin money and money of account. A merchant in St. Louis can settle his debit in any part of this country, or in Europe, quite as effectually by the transmission of bonds as by the transmission of gold and silver, or of a banker's Bill of Exchange.

Hence these national debts are both blessings and burdens; blessings in that they increase the amount of circulating money, burdens in that they bear interest and hence impose increased taxation.** This has been experienced in our own country, but still more emphatically illustrated recently in Europe.

When at the close of the Franco-German war France was compelled to pay five milliards indemnity to Germany, it was generally expected that France would be prostrated industrially, commercially and financially, for years to come, by the addition of such an enormous amount to her public debt, and that Germany would correspondingly prosper by the receipt of the money. But what was the result ? A few years later —in 1873— a money panic swept over Germany, quite as destructive as our own panic of 1857, and from the effects of which that country is still suffering intensely, after the lapse of full two years. Meanwhile no country in Europe, not even excepting England, has been and is still so prosperous as France, which has experienced an unparalleled development of her commerce, industry and agriculture. And what is the reason of this remarkable phenomenon ? The

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remain true until all nations of the world have swept away their debts by substituting paper money in their place, and issuing enough of it for the requirements of their states. The paradox will then cease to be one by being shaped into its rational formula, that the issue of the necessary amount of money needed by a state is not in the nature of a debt, but the prerogative inherent in the sovereignty of the state, to issue the representation of the entire wealth of the state in a circulating medium." ---*Liberty and Law*, p. 151.

** "While in so far the issue of these bonds has been a blessing to the people by furnishing them the needed means of exchange of values, in another way it has been a curse, and as curses all grow with age, so the weight of this curse is to be felt only in the future in all its crushing power. This curse is the interest attached to the bonds, the inevitable coupon, for which the state that issues the bond gets nothing, and which, with its accumulating force of compound interest, must necessarily ruin every state ultimately, or force it into bankruptcy.

“This curse is the result of cowardice; the state being afraid to assume the same power which some few banking-houses, not within one million times so wealthy as the state, were superstitiously supposed to possess, of converting their issues of paper into money, which is the real philosopher's stone. Like all other superstitions this one will have to be swept away, so as to relieve labor of the burdens these money-monopolies impose upon it.

"The absurd fact is, that a sovereign state, finding say one hundred millions more of dollars necessary for its circulation, did not dare to meet the exigency by simply making the amount of money needed, but in a roundabout sort of way issued some paper money, called bonds, and going to capitalists, say one or two large bankers, like the Rothschilds, or Jay Cooke & Co., begged them to be pleased to recognize this paper money as good current money; which these bankers agreed to do upon payment of a large immediate discount and a continuous future semi-annuity, called interest, which is the tribute paid these money-kings.

"The state having agreed' to the terms of this contract, the capitalists put the profits into their pockets, and told the people of the state that those paper-moneys or bonds were good current money, and thus, having made manifest their supreme power over their own sovereign state, looked around for some other power to subdue in the same manner, by compelling it to pay interest tribute.

"It is apparent that for a whole people constituting a state to thus put such an immense monopoly into the hands of a few capitalists, either at home or abroad, is ruinous to their liberties

five milliards were not only a debt incurred by the citizens of France, but equally an increase of the world's money, which proved all the more valuable to France, as her citizens subscribed the whole of it. That debt launched five milliards more of francs into actual circulation.

The Germans, supposing that the transaction was merely one of debit and credit, credited themselves in their minds with an addition to their own national wealth of the five milliards and thus went into a fever of extravagance and speculation, which finally spent itself in the memorable crash of 1873.

The French also supposed, that the transaction was to them simply a debit, an additional burden of five milliards. Hence they concluded, that they must retrench, economize and make increased exertions to develop all their resources. (See Appendix to Part I.)

In a similar way the English National Debt, incurred during the Napoleonic wars, proved not merely a burden, but was also the main factor in that enormous development of English wealth, which, as Mr. Gladstone says, has increased since the beginning of this century more than during all the previous History of Great Britain for eighteen centuries.

There appears, however, to be still so much skepticism in regard to this two-fold character of national bonds, as being both a debt and money, that I shall quote two eminent authorities, who have recognized it in the first instance of government obligations —namely, that of the Bank of Venice— and whose views may have all the more weight with some of my readers, in that both of the writers still cling to specie payment, in direct conflict with their own arguments.

McPherson, in his *Annals of Commerce*, Vol. I., p. 342, says of the Banco del Giro of Venice: "If I mistake not this Bank is also the most ancient establishment of a permanent national debt." And Mr. Colwell, *Ways and Means of Payment*, p. 296, remarks: "The facility of payment furnished by the Bank of Venice .... consisted in substituting, as a medium of payment, the debt of the republic for current coin."

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and welfare, and that the accumulation of interest compounded in such manner must eventually swallow up the whole property and values of the state. Why should these capitalists have the power to say what is to be money ? Why should not the people themselves in their organic law decide upon this matter, and agree among themselves what they all intend to receive as money, thus all pledging to each one the security of the money and the permanency of its value forever ? The only objection made is this: that so long as each state of the world is an absolutely separate organization, the paper money of one state can never become the legal currency of any other state, and that gold and silver must therefore always remain the only possible world-money. To what extent this objection is valid, and how it is to be overcome, will be considered hereafter.

"There is, however, still another and even more disastrous view to be taken of this issuing of interest-bearing bonds by a state. It is virtually the mortgaging by the state, as a political body, of all the rights, liberties, wealth, and franchises of its citizens to foreign bondholders; and to what extent this can be carried was very effectively shown in the case of Mexico, when the foreign bondholders, with their claims upon the state of over eighty-three millions of dollars, succeeded in inducing their European governments to impose a foreign emperor upon the Mexican people, plunging them into those fatal wars that were to end in the tragic death of Maximilian.

"No state government should have the power to sell its citizens into possible foreign slavery, thus laying a mine under the political fabric that may at any moment shatter it into fragments. The issue of bonds bearing interest is the exercise of such power. It puts shackles on a nation even more effectually than a mortgage does on the individual who hypothecates his farm." ---*Liberty and Law*, pp.153-156.

chapter VI.

BANKS AND BANK ISSUES.

BANKS AND BANK ISSUES — THEIR FURTHER INCREASE OF THE WORLD'S MONEY OF ACCOUNT — THE MODE OF OPERATION BY WHICH THIS IS DONE — QUOTATION FROM BLACKWOOD'S MAGAZINE.

But enormously as the world's money of account has been increased by the issue of government bonds, it has been still further expanded by the organization of public and private banks within the present century all over the world. Computation of the amount of money of account thus created is simply impossible but it may be safely stated, that only from three to five per cent. of all the commercial and financial transactions of the world are carried on nowadays by what is called "real," or "metallic" money. The other 97 or 95 per cent. are settled; by drafts, checks and Bills of Exchange.

The *modus operandus* in which banks manage to effect this interchange of money, without using the "real" money supposed to be at the base of it, I cannot describe better than by quoting from an article in a recent number of *Blackwood's Magazine* on "The Rate of Discount." After referring to the fact, that Sir John Lubbock, in analyzing the nineteen millions of the receipts of the banking house of Roberts & Co., of London, found that only 3 per cent. of these receipts were in cash, the 97 per cent. being checks, drafts and other means of exchange, the writer of that article says:

"The mystery of banking, if there is a mystery, will be unravelled by discovering what these 97 things are. What, then, are they ? Cheques, bills, dividend-warrants, pieces of paper, which have debts inscribed on them, and empower a bank, if it chooses, to demand and receive the several sums of money mentioned on those papers. Palpably, then, on its receiving side, a bank is a collector of debts. These debts which it has to collect are its resources. These are what it has to pass on and lend to traders. These debts are paid to the bank beyond doubt; but in what form ? In money, the cash which the bank indisputably can demand ? By no means. The bank does not ask for money, nor, as to those 97 things, touch it. The mode of settling these debts is quite a different process. The banker, whose aim is profit, finding that he has so many debts to collect, at once authorizes some borrowers on discount to sign fresh pieces of paper with sums of money inscribed on them, fresh cheques, and to buy goods with them, and he, the banker, undertakes to pay these cheques when presented. These two sets of paper —the cheques which the banker received to collect, and the cheques which he empowered his borrowers to draw upon him— meet at the clearing-house, and there cancel each other. The settlement of one set of debts is thus effected by the creation of a second. The final result at the bank, nay, the sole action of the bank, is a registry in its ledger of a debt which it owes to its depositor, and of a second or counter debt which its borrower owes it in turn. The resources have passed through the bank, have travelled from one set of men to another, and all that they have actually done at the bank in their passage through it is to cause entries to be made under various names. These entries, this action of the bank, required no cash whatever. They were merely items of accounts, lines in the bank's books, recording, indeed, relations of debtor and creditor —still in themselves only figures. The cheques were not cash, and were not paid in cash. All these paper orders to pay or receive money are nothing but title-deeds to money —legal evidence of debt, valid and possessing worth only because, as evidence, they are able to persuade a court of law to send the sheriff to collect the specified money from the debtor; but a title-deed and legal evidence able to obtain possession are not the property itself. Beyond doubt they can procure money, if the banker asks for it; but he does not, and that is a fact, a

positive, real fact, of the utmost significance for understanding the nature of banking. Money demanded and retained would bring the banker no profit, whilst permission given to a borrower to draw a new cheque on him, enriches him with a charge for interest. Thus he collects the debt which the depositor gave him to receive through the agency of a third person, a borrower. Some thing clearly passes through the bank by means of these two entries, and that something is a power of buying goods in the shops and markets. This purchasing power is what the banker transfers on to the borrower: its nature and action we must now proceed to investigate.

"We must return to the debts sent in for collection, the cheques and other paper orders to receive money paid into the bank. How do they originate ? They are all at their origin, omitting subsequent transfers after they have reached the bank, the children of the sales of goods. Let us appeal to the actual events of commercial life, to the buying and selling effected by means of banking. A farmer sells to a miller ricks of wheat of the value of £1,000. He is paid with a cheque, which he deposits with his banker; but of the proceeds of the sale he needs only £400 for immediate purchases and payments; the remaining £600 he will not require, say for three months. These facts we must suppose the banker to know; so he at once infers that of the £1000 he has to collect, £400 will be needed to face the cheques drawn by the farmer; the other £600 are at his disposal for three months. He may, if he pleases, collect the whole sum in coin, and store up the unneeded portion in his vaults; but he does not, for what profit would he then get out of banking ? That would be to convert himself into a mere warehouseman. He seeks a borrower; he finds an iron-merchant in search of means, and he lends him £600 for three months, on the discounting of a bill. The merchant buys iron, pays for it with a cheque, and all the three cheques meet at the clearing-house —the first for £1000, the second for £400, and the third for £600— and there clear each other. The transaction is completed. The banker on the settlement at the clearing-house has to pay as much as he received, and no money passes. The farmer has parted with his wheat, which has been exchanged, partly for some goods which he has bought for his own use, partly for iron. He has become a creditor of the bank for £600, and the merchant a debtor for the same sum. The grand final result is, that goods have been exchanged for goods; and that is the whole of the matter. The banking has been mere agency —absolutely nothing more. The banker, manifestly, in all this has been simply a broker, an intermediate agent, and nothing more— a man who brings two other men together, a farmer who wants to lend wheat and an iron-merchant who wants to borrow iron."

In another place he expresses the *modus operandi* still more concisely, as follows:

"By the simple but effective contrivance of a bill acknowledging a debt and pledging repayment at a deferred day, the trader goes to work with means which are not his own. The large manufacturer buys his cotton or wool with bills, and when they are due, he meets them by the help of another set of bills, for which he has in turn sold his merchandise. These, the bills he has received on the sale of his goods, he gets discounted at a bank, and a new round of operations commences. So it is with the merchant. He sells a cargo at Calcutta, and is paid with bills. Without the assistance of a bank he must have waited till the bills were paid before he could have gone on with his trade. A bank takes, that is, buys, his bills, and furnishes him with the means of continuing his business."

chapter VII.

THE HISTORY OF OUR AMERICAN PAPER MONEY.

HISTORY OF OUR AMERICAN PAPER MONEY—ISSUES OF THE CONTINENTAL CONGRESS — FIRST UNITED STATES BANK ESTABLISHED IN 1791 — SECOND IN 1816 — CHARTERING OF STATE BANKS — CONFLICTS BETWEEN FEDERAL AND STATE BANKS — DOWNFALL OF THE FEDERAL BANKS UNDER JACKSON—EXTRAVAGANT ISSUE OF IRRESPONSIBLE STATE BANK NOTES — THEIR DEPRECIATION AND SUSPENSION IN 1837 — ISSUE OF UNITED STATES TREASURY NOTES IN 1837, 8-9 — THEIR WITHDRAWAL AND THE ESTABLISHMENT OF STATE BANKS IN 1841, AND PASSAGE OF BANKRUPT ACT— CONSEQUENT FLUCTUATIONS AND PANICS FROM 1 843-1 861 — FIRST ISSUE OF FEDERAL MONEY AT THE OUTBREAK OF THE CIVIL WAR — FURTHER ISSUE TILL 1864 — DISASTROUS RESULTS OF HAVING THREE KINDS OF MONEY — ISSUE OF FEDERAL BONDS TO SUPPLY MORE MONEY—THE RUINOUS DISCOUNT OF THEIR SALE IN JULY, 1864 — CRITICISM OF THE FINANCIAL POLICY OF THE GOVERNMENT — ESTABLISHMENT OF THE NATIONAL BANKS — THE BLUNDER AND EXPENSIVENESS OF THE SCHEME — THE OUTRAGE OF THE ACT OF CONGRESS DECLARING OUR CURRENCY BONDS TO BE PAYABLE IN COIN — NATIONAL BANKRUPTCY FORESHADOWED — THE FUTURE DANGER — THE BENEFITS RESULTING FROM THOSE FEDERAL ISSUES OF BANK-NOTES AND BONDS.

Before proceeding further and describing the system of ABSOLUTE NATIONAL MONEY, which I propose to substitute for the present irregular, multifarious and unsecured money issues of private and public corporations, it will be well to review the history of our own paper money, since any new system must after all connect practically with the existing state of things. Besides, the financial experience of our own past is exceedingly instructive, and calculated to throw fresh light on the great reform needed in our money issues. I quote from *Liberty and Law*.

"In the year of the Declaration of Independence of the United States, the Continental Congress, having no control of sufficient gold and silver to carry on the revolutionary war, was forced by that great exigency to establish a paper currency, and authorize the issue of such money as the only available means for exchanging values and prosecuting the conflict with Great Britain to a successful close; but it had no clear comprehension of the sovereign right of the new republic to create a national money of its own. During the year 1776 twenty million dollars were issued, and before the close of the war more than three hundred and fifty-seven million dollars of continental currency was in circulation in the United States.

"While the colonists were battling for their right to a free representative government against the despotism of the British Parliament, they did not seem to be aware of the fact that an equally dangerous money-despotism, controlled and wielded with great skill by their adversary, could be counterbalanced only by a national financial system of their own creation. To a certain extent this was accomplished by the plan adopted; but if that Congress had made its currency, to the exclusion of all other money, a legal tender for all demands, secured, as it would have been, by the wealth and resources of the nation, even then so richly endowed, a rational money system would have been established by the new republic, facilitating the triumph of its arms, compensating it for the great losses and expenses of the war, and at the same time breaking the shackles of the money-despotisms of the Old World in our republic, which to this day continue to oppress and embarrass our people.

"The continental money was created merely as a temporary war measure, necessary to insure success to our arms in that memorable conflict; but as soon as the

crisis was over, it was repudiated in bad faith, to the ruin of many patriotic soldiers and citizens, and the injury of our national credit and financial standing among nations. If that currency had been made a legal tender when issued, the total amount of the issues would not have been one-fourth of the amount repudiated in 1782-83, and would have greatly added to the prosperity of the people of the States, by giving them a universal national money-medium of intercommunication to develop their inexhaustible resources, to unfold to full activity all the producing, manufacturing, trading and commercial industries of the people, and to defend them against and emancipate them from all foreign as well as domestic monetary monopolies. After that repudiation, great financial distress ensued, paralyzing all kinds of business, for the want of money to carry it on, until the year 1791, when the establishment of a United States bank by Congress relieved in a great degree the previous money-pressure.

"The charter of that bank expired in 1811, and no other money-tokens remaining but gold and silver, wholly insufficient in quantity to furnish a circulating medium for the increasing business and commerce of the people, another period of suffering for the want of money ensued, and the war of 1812, with Great Britain, so increased it, that a second United States bank of issue was chartered for twenty years, in 1816, which again temporarily relieved and restored the business activity of the people.

"Meanwhile the States of the republic began to charter banks with power to issue paper money, in violation of the spirit of the Constitution; although the federal Supreme Court, under the pressure of an apparent public necessity, held their charters to be valid. The paper-money issues of the federal and State banks furnished a large addition to the circulation and exchanges; but different kinds of money were thus introduced, in addition to coin, and the almost universal depreciation of the value of many of the State bills, at any considerable distance from the place of their issue and redemption, injuriously affected business and commerce, by subjecting such bank-notes to brokerage discounts, and thereby forcing the banks into a continual warfare with each other, to compel coin redemptions for the protection of their several issues.

"This kept alive and flourishing the coin-money system, and finally created a conflict between the federal banks and State banks, that culminated in 1833, when President Jackson, espousing the cause of the State banks, compelled the government moneys to be removed from the United States Bank to certain State banks, which became the depositaries of the public moneys and the authorized agents of the Treasury. The opposition of the President and the Democratic party, and the removal of the deposits, caused the downfall of the federal bank, and the national credit and moneys passed to the State banks that were known as 'pet banks'.

"Then arose an era of irresponsible, illegal State banking, controlled exclusively by private corporations, for their own profit, resulting in enormous issues of paper money, causing an extravagant inflation of the currency and increasing speculative manias, to such an extent that nearly all those banks suspended in 1837, with an irredeemable currency flooding the country. The universal distress and prostration of all business and trade was such that Congress passed acts, in 1837, 1838 and 1839, for the issue of Treasury notes to the amount of ten million dollars in each of those years, for the relief of the people, by furnishing them a national money amply secured by the credit and vast resources of the republic.

"These laws gave some temporary relief to the extraordinary stringency of the money market, but the government did not yet perceive the true remedy for financial

revulsions to be a national currency, and these wise acts were repealed in 1841, and Congress in the same year deemed it necessary to pass a national bankrupt act.

"The State banks that did not forfeit their charters or discontinue their business, one after another resumed specie payments, and the working of the monetary system under their management, from 1843 to 1861, illustrated the ruinous results arising from the delegation to States or corporations of the sovereign power of making money or issuing notes to form a circulating medium for the people of the United States.

"The frequent recurrence of panics during that period proved this by demonstrating the fallacy of keeping up a permanent circulation of paper money, issued by divers State banks, that was always to be redeemable in specie on demand. The mutual jealousy of such banks will ultimately reduce the circulation to the coin on hand, and a great scarcity of money will ensue; or, if the issues greatly exceed the specie in their vaults, and a demand for gold arises, as in 1857, the banks so organized must suspend specie payments, to the ruin and distress of all persons depending upon their circulation for the transaction of business.

"At the breaking out of our civil war in 1861, the federal government had no paper money outstanding, and gold and silver were its only recognized standard of value. It immediately became apparent that sums of money immensely beyond the sum of all the gold and silver on hand would be needed to supply the sinews of war, and the stringency seemed all the greater in that the effects of the monetary crisis of 1857-58 had not yet passed away. The State banks had already proved wholly insufficient for managing the monetary affairs of the nation in time of peace, even with the assistance of the Sub-treasury, organized in 1846*; and no other course remained than the organization of a money system independent of coin, and in July, 1861, the issue of sixty million dollars of demand notes, receivable for duties and imposts, was authorized by Congress.

"But the government, instead of continuing the money-policy thus inaugurated, and making all its issues a legal tender for all debts thereafter contracted, changed the issue, from 1862 to 1864, to legal-tender notes, receivable for all debts except duties and imposts. Four hundred million dollars of this currency were issued during that period, and to make it the supreme paper money of the country, a heavy tax was levied upon the circulation of the State banks, which were thereby virtually suppressed. Thus three kinds of money were established: the demand notes, the legal-tender notes, and gold and silver, —placing a premium on the coin, over which the government had no control. The legal-tender currency issue was too small, and for some unaccountable reason Congress would not authorize the issue of more currency, and hence was forced to create a fourth kind of money, in the form of bonds of the United States, bearing heavy interest payable in coin, —although the principal of these bonds, known as 5/20s, was generally understood to be payable in legal-tender currency,— and caused them to be sold at a ruinous discount for gold, which Congress had greatly enhanced in price by requiring all duties to be paid to the agents of the Treasury in specie, thus directly depreciating the legal-tender notes by refusing to receive them for duties payable to the government.

"The issue of these interest-bearing bonds during the war forced the government into the market to sell its own securities for its own legal-tender notes or for gold, and to do this it was deemed necessary to employ bankers and brokers, pay heavy commissions, and contract immense future obligations in the way of interest, in

* This arose from their usurpation of the power to issue paper-money, which power the Constitution reserves to Congress.

order that some banking-houses, with not a millionth part of its wealth and resources, might indorse its bonds and undertake their negotiation. Thus this wealthy and powerful government, by an unpardonable financial blunder, placed its finances at the mercy of foreign and domestic money-monopolies; nay, sacrificed the wealth and prosperity of future generations, by unnecessarily incurring an interest debt which already demands a most oppressive rate of taxation and duties to meet it.

"The true policy, and the one suggested to the Secretary of the Treasury at the breaking out of the war, was to recommend to Congress the passage of a law for the creation of a national money, by the issue of legal-tender Treasury notes, receivable for all debts, demands and duties, to the exclusion of all other money, thereby rendering gold and silver mere articles of commerce, like copper, lead, iron and other products for import or export.

"If this proposed policy had been approved by the Secretary of the Treasury, or adopted by Congress without his recommendation, the war expenses would have been greatly diminished, and at the restoration of peace there would have been no national bonded war debt and no national taxes, and the people would have had a reliable national money for general circulation, to the exclusion of all other money, and better suited for business, commercial, and governmental purposes than any other money in the world.

"Instead of adopting this economical and statesman-like policy to meet the public exigency, many vacillating, speculative, and unwise schemes were proposed by the Treasury, adopted by Congress, and abandoned alternately, until the bond credit of the United States, in 1864, sank below that of the Confederate States about twenty per cent. in the London money market. This was the plain result of our own inconsistent, suicidal financial schemes, as will clearly appear from a brief review of them.

"The issue of the demand notes in 1861-2 was followed by an issue of common legal-tender notes in lieu of them, then coin interest-bearing 5/20 bonds, 7-30 interest-bearing bonds, Treasury three-year notes, three per cent. certificates, more 5-20 bonds, compound six per cent. notes, five per cent. notes, and gold certificates, until about two thousand million dollars 5/20 bonds had been issued.

"In fact, the main purpose of the financial administration of our affairs during the whole progress of the war seemed to be to create an enormous national debt, bearing a high rate of interest, and entailing upon the people ruinous taxes, tariffs, and other burdens.

"But worse than all these extravagant and inconsistent measures, the government, finding that the people needed more currency for ready interchange, instead of issuing legal-tender notes in proportion as they were needed, created, in 1863, one of the most powerful monopolies in the world, by the National Bank Act, and transferred to the money corporations to be organized thereunder the national sovereign power of making United States national bank-notes, paying them, moreover, virtually an annuity of six per cent. in coin to accept this most valuable franchise.*

"In 1869 there were sixteen hundred and twenty of these national banks, with a circulation of two hundred and ninety-nine million seven hundred and eighty-nine thousand eight hundred and ninety-five dollars, secured by United States 5/20 bonds

* Since the passage by Congress of the Act directing the resumption of specie-payment in 1879, this franchise has not only lost all its value, but has become a positive burden, of which the National Banks will have to relieve themselves by the surrender of their charters, in order to prevent their utter ruin, as I have shown in the last chapter of this book.

for three hundred and forty-two million four hundred and seventy-five thousand six hundred dollars, deposited by them in the Treasury to secure their several circulations, issued upon such bonds, the redemption of which in legal-tender notes was guaranteed by the United States. That is, the government paid those sixteen hundred and twenty banks an interest bonus of six per cent. in coin a year on three hundred and forty-two million four hundred and seventy-five thousand six hundred dollars of United States bonds, to accept the privilege of issuing three hundred million dollars of such currency so issued to them, and loaning them out at the highest rates of interest.

"This ruinous scheme of finance, invented, it is said, in the Treasury, to aid the federal government, is about equivalent to a loan of money by Mr. Prodigal to Mr. Shylock for twenty years, on a special agreement that the lender should pay the borrower six per cent. yearly interest in coin for accepting the money so loaned, and assuming the trouble of lending it, at the highest rate of usury possible, for his own profit!

"But in order to rivet these chains of debt and interest more firmly upon the necks of the people, so that no future Congress could remove them, it was necessary for the bondholders, brokering speculators, and the national bank stockholders to procure the passage of a law declaring the 5/20 currency bonds to be redeem able only in coin; and to prevent the repeal of such an unjust law, another enactment was required, authorizing the issue of new bonds, with special contracts inserted therein, binding the government to pay the principal and interest in coin, whereby, on the sale of the new bonds for gold, the proceeds would be used for the redemption of the 5/20 currency bonds in coin.

"To accomplish this purpose, Congress, on the 18th of March, 1869, passed a joint resolution pledging the faith of the nation to redeem the 5-20 bonds in gold; and on the 14th of July, 1870, another act, authorizing the issue of new gold bonds with gold coupons, to be sold for the redemption of the 5-20 currency bonds at par.

"About two thousand million dollars of 5/20 currency bonds were thus changed into coin bonds by the act of 1869, the burdens of it falling with crushing force upon the tax-payers and producers of the present and future generations of our own people. These 5/20 bonds had most of them been purchased at an average coin price of about fifty cents on the dollar. By this inexcusable legislation of Congress the national debt, and all secured debts of individuals, contracted for currency during the war, were in reality doubled for the sole benefit of usurers, bondholders, and monopolists, and a new obligation was created for the American people, which it is impossible to fulfill. There is not half gold enough to be had anywhere to pay off the 5/20 bonds. It is a physical impossibility, and, by the resolution assuming to pay it in coin, Congress virtually forced upon the nation a gigantic short sale of two thousand million dollars in gold for two thousand million dollars in 5/20 bonds that had already been sold for currency prices and were then outstanding, to be redeemed in legal tenders.

"It was a bold, treasonable cornering of the nation in the interest of the bondholders; and, injurious as its consequences have already been in producing universal financial distress and numerous bankruptcies, the far more threatening calamities of national insolvency and revolution that it holds out for the future can be avoided only by the repeal of the acts of 1869-70, and the passage of an act prohibiting the further sale of new gold bonds, and requiring the redemption of all the remaining 5-20

currency bonds in legal-tender notes to be issued for that purpose, as was the original intention and understanding.*

"But even these miserably inconsistent financial measures of issuing several different kinds of Treasury notes, bonds, and national bank-notes, demonstrated in a general way the wisdom of making a national money controllable by the government. An era of prosperity for the United States began, and continued from 1863 to 1869-70, that made us almost forget the expenses and ravages of a gigantic civil war. Commerce, agriculture, and manufactures multiplied in wonderful proportions, and great public improvements of all kinds increased rapidly on every side; and this national prosperity would in all probability have been permanent it the acts of 1869-70 had not been passed, and a policy had not been adopted by the Treasury subjecting the established national currency to a ruinous conflict with the old coin despotism, supporting and supported by the money-monopolies that now rule the nation with a rod of iron.

"Before these incorporated despotisms the federal Congress, many of the State legislatures, and great numbers of the people bowed down in submissive adoration, like the idolatrous Hebrews in their worship of the golden calf at Mount Sinai; and now, since these powers are supposed to have attained absolute supremacy, the redemption of the 5/20 bonds in coin and the sale of the new gold bonds are urged with such eager haste by the Treasury that financial ruin stares our merchants and manufacturers in the face, and the bankrupt courts are overrun with applications. To complete our financial ruin we need but one more suicidal act of Congress, providing for the resumption of specie payments, which would bring the fatal conflict between the legal-tender currency system of the country and the old coin despotism to a close by destroying our national money, and inevitably force the nation and the people into bankruptcy, repudiation, or revolution." ---*Liberty and Law*, pp. 159-172.

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* The manner in which this can be accomplished, without violating the national faith, has been explained by me in the Second Part of this work, Chapter IX.

APPENDIX I.

The Five Milliard Franco-Prussian Loan

There is no financial transaction in the history of the world which is so instructive as the negotiation of the five milliards loan by the French government after the peace of Versailles, and the results of that loan. Nor could I better illustrate the fundamental principles of my money system than by referring to the particulars of the negotiation of that loan. This, let me hope, will be a sufficient excuse for quoting here at length from an exceedingly able article on that subject, which is taken from the February number of *Blackwood's Magazine*.

"As soon as it became known, five years ago, that France had to hand over £200,000,000 to Germany, it was generally predicted that the financial equilibrium of Europe would be upset by the transfer of so vast a sum from one country to another, and that the whole system of international monetary relationship would be thrown into confusion. Apprehensions of an analogous nature were abundantly expressed when the two French loans successively came out. Wise bankers shook their heads in Frankfort, London, Amsterdam, and Brussels, and assured their listeners that, though the money would probably be subscribed, it could not possibly be paid up under five years at least. And yet the whole of this vast transaction was carried out between 1st June, 1871, and 5th September, 1873; twenty-seven months sufficed for its completion; and not one single serious difficulty or disorder was produced by it. The fact was that the commercial world had no idea of its own power; it thought itself much smaller than it really is; it failed altogether to suspect that its own current operations were already so enormous that even the remittance of five milliards from France to Germany could be grafted on to them without entailing any material perturbation. Such, however, has turned out to be the case; and of all the lessons furnished by the war, no other is more practical or more strange. The story of it is told, in detail, in a special report which has recently been addressed by M. Leon Say to the Commission of the Budget in the French chamber.

"But before explaining the processes by which the war indemnity was paid, it will be useful to recall the principal features of the position in which France was placed by her defeat. It is now computed that the entire cost of the campaign amounted, directly and indirectly, to about £416,000,000; and this outlay may be divided into five sections, —the first three of which were declared officially by the Minister of Finance in his report of 28th October, 1873, while the two others have been arrived at by a comparison of various private calculations. They are composed as follows:

1. Sum paid by France for her own military operations, ...	£197,203,000
2. Sums paid to Germany (Five Billion Francs and interest), ...	224,478,000
3. Collateral expenses, ...	39,814,000
4. Requisitions in cash or objects, ...	15,000,000
5. Loss of profits consequent upon the suspension of trade, ...	30,000,000

"Now the payment of the indemnity, £200,000,000, and the detailed conditions under which that payment was to be made, were stipulated in

the three treaties or conventions signed successively at Versailles, Ferrieres, and Frankfort, in January, March, and May, 1871. It was determined by the last-named treaty that 'payments can be made only in the principal commercial towns in Germany, and shall be effected in gold or silver, in English, Prussian, Dutch, or Belgian bank-notes, or in commercial bills of the first-class.' The rates of exchange on coin were fixed at 3f. 75c. per thaler, or at 2f. 15c. per Frankfort florin; and it was agreed that the instalments should be paid as follows:

30 days after the suppression of the Commune, ...	£ 20,000,000
During 1871, ...	40,000,000
In May, 1872, ...	20,000,000
2d March, 1874, ...	120,000,000
Total, ...	£200,000,000

"The last £120,000,000 were to bear interest at 5 per cent.

"It must be particularly observed that no currency was to be 'liberative' excepting coin, German thalers or German florins.

"Furthermore, it was declared that the instalments must be paid at the precise dates fixed, neither before nor afterwards; and that no payments on account should be allowed.

"Two main conditions, therefore, governed the operation: the first, that all payments made in anything but coin or a proper German form were to be converted into a German form at the expense of France; the second, that the proceeds of all bills or securities which fell due prior to the date fixed for an instalment, were to be held over until that date.

"As the annexation of Alsace-Lorraine to the German Empire obliged the Eastern Railway Company of France to abandon all its lines within those provinces, it was agreed that Germany should pay for them, that the price should be £13,000,000, and that this sum should be deducted from the indemnity. This was the first exception. The second was, that Germany consented, as a favor, to accept £5,000,000 in French bank-notes. By these two means the £200,000,000 were reduced to £182,000,000. But thereto must be added £12,065,000 for interest which accrued successively during the transaction, and which carried the total for payment in coin or German money to £194,065,000. And even this was not quite all, for France had to furnish a further sum of about £580,000 for exchange, and for expenses in the conversion of foreign securities into German value. This last amount does not appear to be finally agreed between the two Governments —there is a dispute about it; but as the difference extends only to a few thousand pounds, the final sum remitted may be taken at about £194,645,000, or at £199,645,000, if we include the £5,000,000 of French bank-notes. The £13,000,000 credited for the railways carried the entire total of the indemnity, with interest and expenses, to £212,645,000.

"The first payment (in French bank-notes) was made on 1st June, 1871. As the first loan was not brought out until the end of the same month, £5,000,000 were taken for the purpose from the Bank of France; but with that exception, and subject to temporary advances (as will be seen hereafter), the funds for the entire outgoing were provided by the two great

loans; the interest was, however, charged separately to the budget. Consequently, the money was derived successively from the following sources:

The value of the Alsace-Lorraine railways, ...	£ 13,000,000
Loan from the Bank of France, ...	5,000,000
Out of the first loan for two milliards, ...	62,478,000
Out of the second loan for three milliards, ...	120,102,000
Out of the budgets of 1872 and 1873 (interest), ...	12,065,000
Total, ...	£212,645,000

"After these preliminary explanations we can now begin to show the means by which the transfer was performed. We will divide them, in the first instance, into four categories.

1. German bank-notes and money collected in France after the war, ...	£ 4,201,000
2. French gold and silver, ...	20,492,000
3. French bank-notes, ...	5,000,000
4. Bills, ...	169,952,000
Total, ...	£199,645,000

"The first observation to be made here is, that the German money found in France amounts to a singularly large sum; indeed, if this proof of its importance had not been furnished, no one could possibly have suspected that the invaders, for their personal and private necessities, had spent anything like so much.

"The £20,492,000 of French money was composed of £10,920,000 in gold and £9,572,000 in silver. But it should be said at once that these figures express only the amounts transmitted by the French Government officially, and do not comprise the quantities of French gold bought by Germany or forwarded by private bankers to cover their own bills; these other quantities will be referred to presently. £6,000,000 of the Government gold were supplied by the Bank of France; the rest was bought from dealers or furnished by the Treasury. Of the silver, £5,840,000 were obtained in France, and £3,732,000 were drawn, in bars, from Hamburg, and coined in Paris.

"But these direct remittances of German and French cash represented, after all, only about one-eighth of the entire payment; *the other seven-eighths were transferred by bills, and it is in this section of the matter that its great interest lies*. It will at once be seen that, as no remittance in paper became 'liberative' until it was converted into an equivalent value in thalers or in florins, the French Treasury could obtain no receipt for an instalment until all its various elements had been so converted; its object, therefore, was to obtain the largest possible amount of bills on Germany, so that, at their maturity, their proceeds might be at once available in the prescribed form. But, at the same time, it was quite impossible to collect in France alone, within the time allowed, anything approaching to the quantity of German bills required.

"The result was, that it was found necessary not only to hand in a large amount of bills on other countries, which had to be converted into German values at the cost of France, but also, as regards the purchase of direct bills on Germany, to effect it frequently in two stages. In the first stage, bills were bought in Paris, as they offered, on England, Belgium, or Holland; in

the second, a portion of the proceeds of those bills was reinvested in those countries in other bills on Germany itself. Of course the French Government was very anxious to employ every sort of means to increase the quantity of German bills, and to avoid leaving to the German Treasury the right of converting foreign paper into German value at French expense. At the origin of the operation the importance of this element of it was not fully realized; but by degrees the French minister discovered that it was far more advantageous to effect his conversions himself than to leave them to be carried out anyhow at Berlin. The result of this discovery was, that while £454,000 were paid to Germany for the cost of conversion on the first two milliards, only £11,000 were paid to her under the same head on the remaining three milliards; after the experience of the first twelve months, France sought for bills on Germany wherever she could get them, all over Europe; and it may be added that *she was somewhat aided in the effort by the special position of Germany, who, at the moment, was in debt considerably to England, not only for the war loans she had issued there, but also on commercial account as well.* But, as has just been mentioned, a good many of these bills were substitutions for each other, and consequently the amount of paper shown as bought is considerably larger than the real sum paid to Germany, the reason being that a good deal of it appears in the account twice over. The following table gives the composition of the total quantity of bills bought by France:

Bills on Germany, bought direct, in thalers, ...	£62,550,000
Bills on Germany, bought direct, in florins, ...	9,548,000
Bills on Germany bought, in thalers, with the proceeds of other bills, ...	43,218,000
Bills on Germany in reichsmarcs, ...	3,172,000
Bills on England, in sterling, ...	61,780,000
Bills on Hamburg, in marcs-banco, ...	21,432,000
Bills on Belgium, in francs, ...	20,856,000
Bills on Holland, in florins, ...	12.952,000
Total, ...	£234,508,000

"But though the foregoing table shows the quantities of bills, of each kind, that were bought by the French Government as vehicles of transmission, it in no way indicates the form in which the money was in reality handed over to the German Treasury. Most of the above figures were largely modified by conversions and substitutions; and when all the bills had been cashed —when the whole payment had been effected— it appeared that the real totals of each sort of currency which had been finally delivered to Germany were as follows:

French bank-notes,	£ 5,000,000
French gold,	10,920,000
French silver,	9,572,000
German notes and cash,	4,201,000
Bills—Thalers,	99,412,000
Do. —Frankfort florins,	9,404,000
Do. —Marcs-banco,	10,608,000
Do. —Reichsmarcs,	3,190,000
Do. —Dutch florins,	10,020,000
Do. —(and in silver)—Belgian francs,	11,828,000
Do. —Pounds sterling,	25,490,000
Total,	£199,645,000

"This catalogue shows, at last, in what shape the bills were really utilized and made 'liberative,' either in German money direct, or by the equivalent in foreign value in thalers or florins. The differences of composition between this definite list and that of the bills originally bought, are only partially explained by M. Leon Say; it is not, however, necessary, nor would it be interesting, to follow out precisely the various conversions which took place; —we will only mention, as an illustration, that, out of the £61,780,000 of original bills in England, £31,687,000 were converted here into other bills on Germany, that £25,400,000 were sent to Berlin in sterling bills, and that the balance remains unexplained. As regards the direct delivery, by France herself, of English, Belgian, or Dutch bullion, the report says nothing; it is only stated, incidentally, that £20,000 of Belgium francs were sent to Berlin in metal, and that the London agency of the French Treasury bought £132,000 here in gold and silver, which, probably, was also shipped to Berlin; but these are the sole allusions to the subject. It is probable, as indeed has always been supposed, that the bullion which was withdrawn, during the operation, from London, Brussels, and Amsterdam, was not taken for French account, but by Germany, out of the sums at her disposal in each place after the bills on, that place had matured.

"We have now before us, in a condensed form, the main elements of this prodigious operation; we see now what were the conditions which regulated it, where the money came from to realize it, how that money was successively employed, and in what shape the payments were at last effected.

We recognize that France herself provided, in her own notes and coin, ...	£25,492,000
that German money and bills on Germany produced, ...	126,815,000
and that bills on England, Belgium, and Holland contributed, ...	47,338,000
Total, ...	£199,645,000

"And now we can approach the most important and interesting point in the whole transaction. *How came it* that £170,000,000 of *bills could be got* at all ? We have given a general answer to the question at the commencement of this article; we will now consider it more in detail, partly with the aid of M. Leon Say's report, partly by reference to other sources of information. It appears, as might have been expected, that various measures were employed by the French Government in order to render possible the collection of such a huge mass of paper. In the first place, particular facilities and temptations were offered to foreigners to induce them to subscribe to the two loans; commissions varying from ¼ to 1 percent were offered to them. *Secondly*, everything was done to encourage anticipated payments of those instalments, so as to hasten the dates at which they could be drawn for. *Thirdly*, as some fear was felt that the second loan might possibly not be eagerly subscribed, coming, as it did, so immediately after a previous issue which was not quite paid up, it was thought desirable to get a portion of it guaranteed by bankers. But, in order not to risk giving to those bankers a large commission for nothing, it was stipulated with them, as a part of the arrangement, that they should supply the Treasury with a fixed quantity of foreign bills. By the two former plans of action the immense amount of

£70,920,000 of drafts on other countries were obtained, £54,960,000 of which were on account of the first loan, and £54,960,000 on account of the second; and it may be remarked at once, before we proceed, that though this figure supplies decisive evidence of the fact that at least one-third of the two great loans was paid up by foreign subscribers, it is certain that nearly the entire amount has been bought back since, and that almost the whole of the new stock is, at the present moment, in French hands. By the third plan, the bankers who formed the syndicate —and it may be mentioned that fifty-five of the first houses in Europe were associated for the purpose — engaged to supply £28,000,000 of paper. Consequently, by these admirably devised schemes, £98,920,000 of drafts were successively procured, and the exact quantity to be bought in the open market was reduced to £71,032,000.

"It must, however, be observed, that though we can regard these drafts on foreign countries for loan instalments as a special product of the occasion, and are therefore justified in counting them apart, the same cannot anyhow be said of the £28,000,000 of bills furnished by the syndicate of bankers. The latter were evidently composed of ordinary commercial paper, and consequently must be added to the total which had to be supplied from commercial sources proper, so putting that total at £99,032,000. Now bills of this sort necessarily imply an effective counter-value of some kind; so, as we have already seen, that at the outside only £18,000,000 of that counter-value was supplied in bullion, there remained at least £81,032,000 of bills which must necessarily have been based on ordinary trading or financial operations. What were those operations ? Very often the general character of a bill is indicated on its face; but in this case a test of that kind could not be applied, not only because there were so many bills to handle that a serious examination of their nature was impracticable (there were, in all, one hundred and twenty thousand of them, of every conceivable amount, from £40 to £200,000), but also because every possible kind of business transaction must have been represented in that accumulation of securities from all parts of the world. Bank credits, circulation bills, settlements for goods delivered, remittances on account cf future purchases, drafts against the coupons of shares and stocks special paper created for the occasion —all these forms, and many others, too, were, according to M. Leon Say, included in the collection. It was not possible to seek out in detail the origins and meanings of such a varied mass; but we may take M. Say's general description of it to be true, not only because it corresponds with probabilities and experience, but also because he was himself Minister of Finance during a part of the operation, and has therefore a personal knowledge of its main circumstances. Researches, however, which could not be attempted with the bills themselves, may be practically and usefully pursued if they are directed towards the general signs and symptoms of the financial state of France. It is probable that a relatively small amount of bills were created specially to be sold to the French Government. We may, indeed, take the supposed £18,000,000 of exported

bullion as indicating the approximate extent of uncovered or manufactured paper; all the rest was evidently based on mercantile transactions. Now we know that mercantile transactions imply the delivery of property of some kind, and that the two main forms of property, commercially, are merchandise and stocks. It is therefore necessary, in order to arrive at an idea upon the question, to glance at the actual position of France in her dealings with other nations in these two values.

"We have already alluded to the development of French trade, and to the general influence of that development on the payment of the war indemnity as a whole; but we must go into a few figures here in order to make the bearings of the subject clear. The value of the foreign commerce of France —importations and exportations together— was £257,000,000 in 1871, £293,000,000 in 1872, and £301,000,000 in 1873. Now it will be at once recognized that the amount of bills necessitated by this quantity of commerce, supplied a solid foundation for carrying the additional paper whose origin we are now seeking to discover. M. Say is of opinion that scarcely any part of the indemnity bills was furnished by the current commercial trade of the country; but, as we have just seen, that the quantity required from trading sources was £81,000,000, or about £40,000,000 per annum, it does seem to be possible, notwithstanding his contrary impression, that some portion of that relatively reduced quantity may have been found in the ordinary commercial movement. For instance, it may reasonably be argued —as indeed M. Say himself admits— that bills drawn against French exports to Germany or England would be included, to some extent, amongst those which were offered to the Government. There seems to be no reason why this should not have been so.

"But if M. Say considers that the habitual commercial paper of France has not been of much service to the Treasury in its conduct of this operation, he holds a totally different opinion with reference to the influence of foreign investments of the French people.

"The movement of the precious metals forms a separate element of the subject, and one that is not easy to trace out; for in France, as in most other countries, the public returns of the international trade in specie are very incomplete. We know how much gold and silver are raised from mines, and how much thereof is coined by each country; but we are very ill informed as to what becomes of them when once they have issued from the Mint. On this head also, however, M. Leon Say has collected some valuable facts. The Custom-house Reports inform us that during the three years from 1871 to 1873, £53,400,000 of bullion were exported, and £50,480,000 were imported; on this showing, therefore, the loss of bullion was only £2,920,000. But as private information gave good reason to believe that the amounts must have been in reality considerably larger, calculations have been made in order to arrive at a more correct conclusion. It appears, from official publications, that the stock of gold and silver in the Christian world is supposed to have increased by £371,000,000 from 1849 to 1867 the augmentation has not occurred in both the metals —it has taken place in

gold only; the quantity of gold is greater by £428,000,000, while, in consequence of exportations to Asia, the quantity of silver has diminished by £57,000,000.* Now, out of this £428,000,000 of new gold, France alone, in the first instance, received more than half; at least we are justified in supposing so, from the fact that, during the same period, the Paris Mint converted £230,000,000 of bar gold into French coin. Of course this quantity of gold did not remain permanently in France; its whole value was not added in reality to the general French stock of metal; as gold arrived in France silver went away; indeed it is imagined that, out of the £200,000,000 of silver which have been coined in France since the year 1800, only £40,000,000 remained in the country in 1869. It is, however, calculated that the £100,000,000 of hard cash, gold and silver together, which were said to really belong to France in 1848, have doubled since; and M. Wolowski, who is regarded as an authority on such questions, declared in the French Chamber, on 4th February last, that, in his opinion, the national stock now ranges between £200,000,000 and £250,000,000.

"But whatever be the interest of these computations, and useful as it may be to count up the amount of bullion which has come into France, we must look elsewhere for information as to the quantity of it which the consequences of the war took out. We know that the German Mint melted down, for its own coinage, £33,880,000 of French Napoleons. It is also known, says M. Leon Say, that the Bank of England bought nearly £8,000,000 of the same sort of money between 1870 and 1873. Here, therefore, we can trace the passage out of France, since the war, of nearly £42,000,000 of her gold. But, as Germany drew from London £1,680,000 of the Napoleons which she put into the furnace, it may be that that sum was included in the £8,000,000 of the Bank of England, and is therefore counted twice. For this reason the amount really sent to Germany and England may be put at £40,000,000. M. Leon Say adds, that the Bank of Amsterdam bought a further £3,600,000 of French gold; but, as he fancies that this may not have come direct from France, he does not add it to the total, and he holds to £40,000,000 as representing probably the effective loss of gold which France had to support after the war. Of this sum, £10,920,000 were exported to Berlin, as we have already shown, by the French Government itself; the other £29,080,000 were consequently carried out by private firms for transmission to Berlin, and for various other purposes. Silver, however, arrived in considerable quantities to replace the gold. £9,500,000 of silver were coined in Paris between 1870 and 1873; and the Custom house returns, which are almost always below the truth, show an importation of £12,160,000 of it. From all this, M. Say concludes that £40,000,000 of gold left France; that £12,000,000 of silver came to her; and that the £28,000,000 of difference between the two represents the real total loss of bullion which the war entailed.

* Nevertheless the price of silver has fallen in Europe, and for no other reason than that it is no longer a universal Legal Tender.

"But in making this calculation M. Leon Say commits a most wonderful mistake; he entirely omits to take account of the £9,572,000 of silver which the French Government sent to Berlin, and which must, of course, be added to the outgoing. When this strange error is corrected, the loss becomes, not £28,000,000, but £38,000,000, of which the Government exported £20,000,000 —leaving, apparently, £18,000,000, instead of £8,000,000, as the sum contributed by private bankers. This difference of £10,000,000 in the issue of the calculation gives some value to another computation which M. Leon Say has made, but which would have had no foundation if this error had not existed. He says —probably with some truth— that the quantity of money in circulation in a country remains usually at the same general total, during the same period, whatever be the nature of the various elements which compose it. He then goes on to argue that as the issue of French bank-notes was £44,000,000 higher in September, 1873, than in June, 1870, that increase ought to approximately indicate the amount of metal withdrawn in the interval from circulation, and replaced by notes. But, according to his theory, that amount of metal did not exceed £28,000,000, leaving an excess of £16,000,000 of notes, which excess he explains by saying that it represents an equal sum in gold which the French people had hidden away ! Now everybody knows that the lower classes of the French people do hide money —do 'thesaurise,' as they say; but such an explanation of the missing £16,000,000 is so purely imaginary that it cannot merit any serious credit. The theory assumes, however, a very different form when the error of the £10,000,000 is corrected. In that case we have an extra issue of £44,000,000 in bank-notes, corresponding to a loss of £38,000,000 in gold and silver; and there the two figures get sufficiently close to each other for it to be possible that there really is some relationship between them, without being forced to resort to the possible but improbable solution of thesaurising.

"Consequently, with all these various considerations before us, it seems reasonable to suppose that the natures of the bills employed to pay the war indemnity were of three main classes, and were grouped approximately in the following proportions:—

Drafts for foreign subscriptions to the loans, ...	£70,920,000
Bills against French bullion specially exported, ...	18,000,000
Commercial bills and drafts for dividends and revenues from abroad, ...	81,032,000
General total of bills, ...	£169,952,000

"Before we proceed to sum up the case, and to try to draw from it the teaching it contains, there is one more detail which is worth explaining.

"We have alluded to the coining in Paris of a certain quantity of Hamburg silver. To make the story of it clear, it is necessary to remind our readers that according to the constitution of the Bank of Hamburg —which dates from 1619— accounts were kept by it in a money called marc-banco, and credits were opened by it in that money on the deposit of silver— coined or uncoined— the value of that silver being calculated pure. By degrees the marc-banco, though only an imaginary money, grew to be the

universal denominator employed in the home and foreign business of Hamburg; it acquired an importance greater than that of the effective money of many German States. But when the Empire was established, and it was decided to introduce a gold standard into Germany, it became essential to suppress the marc-banco, for it had the double defect of representing silver and of forming a separate value outside German monetary unity. So it was abolished by law and ordered to disappear —the plan adopted being that the Bank of Hamburg should liquidate its deposits, by paying off, in pure silver, the marcs-banco in circulation. It was, however, stipulated that this right should cease on the 15th of February, 1873, and that, after that day, all persons who held securities in marcs-banco should lose the old right of receiving pure silver, and should only be entitled to half a thaler for each marc-banco, that being the value of the silver represented by the latter. Now the French Treasury had bought, as we have seen, £21,000,000 of bills in marcs-banco, and consequently possessed the right of claiming silver for such of them as fell due before 15th of February, 1873, while all the rest, from that date, were payable in thalers. The thaler was 'liberative,' while the marc-banco was not; but the pure silver which the marc-banco represented could be coined into five-franc pieces, and be delivered to the German Government at the rate of 3 francs 75 centimes per thaler. The result was, that being by far the largest holder of marcs-banco paper, the French Treasury was able for a time to control the Hamburg market, and it naturally used for its own advantage the power which this position gave it. The Hamburg Bank was utterly unable to deliver the quantity of silver for which France held acceptance in marcs-banco;* it was absolutely in the hands of the French Minister of Finance; that functionary appears, however, to have acted very fairly —to have only asked for silver in moderation, and to have profited by his power solely to obtain conversions into thalers on good conditions. The result was, as we have said, that £3,732,000 of Hamburg silver came to the Paris Mint, partly through Government importations on marcs-banco bills, partly through private speculators, who followed the example of the Treasury, and pressed the Hamburg Bank for metal.

"Viewed in this light, the payment of the five milliards becomes an enormous piece of admirably well arranged international banking, in which nearly all the counting-houses of Northern Europe took a share. The definition of it is worth knowing, and we may be glad that the information given in M. Say's report has enabled us to arrive at it."

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* Another illustration to show, that no bank, however strictly guarded, can keep clear of failure, if once it transcends its legitimate business.

PART SECOND.

ABSOLUTE MONEY.

chapter I.

The Nature of Absolute Money.

The Nature of Absolute Money — It is More than Coin Money, More than Money of Account, and More than a mere Measure — Patterson Criticized — It is the Representation of the whole Wealth, Power, Sovereignty and Products of the Nation — Every Citizen Equally Interested in Upholding it — It has no Intrinsic Value and can, therefore, never become Purchasable, and hence never liable to Fluctuations — It must always be par — Reply to Objection, that it might be Overissued.

Hitherto I have spoken of all the money tokens that succeeded the metallic coins —no matter whether those tokens were mere transfers of credits on books, as in the case of the Bank of Venice, or international private transfers at the Fairs, or government bonds, or, finally, modern bank checks, bank notes, drafts and bills of exchange— imply as money of account, a mere medium of interchange. Even the United States Legal Tender Notes had to be so classified, although they form the transition to the money that I have proposed in this book for a co-operative representative government like the United States; a money that has all the advantages of both the original metallic money, the subsequent money of account, and bank money; and which is thus a perfect synthesis of so called "real" and "ideal" money; in short, *absolute money*.

This money is more than simple money of account, and more than coin money. It is not a mere measure, as Sir James Stewart calls money of account; though in a certain respect all money is a measure. That is to say: a government may issue its money in dollars and cents, or francs or centimes, or marks or shillings, or pounds, shillings and pence. In each such case the naming and classifying of the various issues of money constitute the establishment of the money measure of a government.*

I have shown in the first part of this work how this measure must have originated in weighing the gold and silver metals, which were at first almost

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* Mr. Patterson, to my surprise, adopts Sir James Stewart's idea, that money is a mere measure, and says: "Money is the counters in which men's gains are reckoned and their respective wealth embodied. Money serves the same purpose in the stern game of life that counters do in games of amusement —and no more. Money, as regards its material, is of as little use to those who possess it as the bone or ivory or mother-of-pearl out of which are made the counters of the card-table." —*Economy of Capital*, pp. 9-10. And again, p. 452, he speaks of money as "the counters by which the game of commerce is carried on." Though in nearly all other respects my money system agrees with his views, I differ with him on this point. The reason of this difference lies probably in the fact, that Mr. Patterson seems to prefer that bank-notes should be issued by private banks and not made a legal tender, but be maintained only by the confidence of the people, as is the case with the Banks of Scotland, than that they should be a national money and made a legal tender, as is the case with the issues of the Bank of England. Or is it, that the people of England are not yet ripe enough to have such a system of pure national Legal tender money broached to them ?

It is, however, but just to Mr. Patterson to say, that he does not lay much stress on this characterization of money as merely a measure, and that in other parts of his work he makes quite a different statement. On page 358, for instance, he says: "Every bank desires to lend its money upon the highest terms it can get. Who ever heard of a mercantile company selling its goods too cheap ? and why should it is otherwise with banks of issue ?" The money is here, therefore, likened to the goods themselves, and not to the yardstick, or bushel, wherewith they are measured. Indeed, if money were a mere measure like a yardstick or a bushel, it would not make any more difference how much money there was in the world, than how great the number of yardsticks or bushel measures there might be in the world.

exclusively employed in facilitating barter. The weight again, on its part, was established in different ways, often very curiously. Thus, Henry the Third of England made a grain of wheat gathered from the middle of the ear the standard weight of his domains. Twenty-four of them, well-dried, were to make one pennyweight, twenty pennyweights one ounce, and twelve ounces one pound troy, or London weight (London having been called *Troy Novant*).

But that act of a government, by which it establishes the measurement of its money, is entirely distinct from that by which it makes its money legal tender, and exclusively legal tender, as I propose that it should be made. Such money is, therefore, more than a measure; it is also a value, or, if that term be held objectionable, a representative of value; since it represents all the wealth and power of the government which issues it. When a government establishes other kinds of measures, such as the length of a foot and inch, or the weight of a pound and ounce, it simply ordains that such measures shall be recognized as the legal standard of weight or length by all its citizens for all purposes, and in all transactions that may arise. But in the creation of legal-tender money, quite another function of government is exercised. The government not only fixes the names and relations to each other of the various pieces of money to be issued, but in the exercise of its inherent sovereignty creates money, impresses it with its seal of sovereignty, guarantees its value by the wealth and power of the nation and the people, and forbids all individuals and corporations to exercise or simulate the same power. Nothing can be bought, nothing sold, no debt paid, no judgment satisfied, legally by payment, except by means of that money. It is altogether indifferent of what substance such money is composed, since it is the form alone, the impress of the national sovereignty, as legal tender for so many dollars, which constitutes its value. The form makes it the representative, as it were, of the whole wealth and power of the nation that issues it, while it is at the same time the *measurement* of that power and wealth. Its function as a measure is of secondary importance but its function as money makes it the absolute solvent of all interchange of property between the citizens of that nation, the visible actual representative of that nation's power, wealth and sovereignty. This it should be under every co-operative system of government, where each citizen would be, if I may say so, a stockholder, in this colossal co-operative business, the value of which would be constantly on the increase. Every citizen, as well as the government itself, would be pledged to receive that money, and *no other money*, for all debts, sales, judgments, fines, duties and imposts. National bankruptcy, or deterioration of value, would, therefore, be impossible; since all citizens would be *equally* affected thereby.

This national money should not have any intrinsic value what ever; nor should it bear the character of a "promise to pay;" since in either case it would become a purchasable commodity, and the money of a nation must not be purchasable. For when it thus becomes purchasable in the market, it shares the fate of all articles of commerce and has a marketable price. This would make it subject to constant fluctuations, the source of all our great

money panics. Now, such a money as I have proposed can never be subject to fluctuation in the market. It would be always at par.

Only one change can possibly arise in regard to it, and that occurs when the population of a country has increased so much, or when its resources have been developed to such an extent, that the amount of money in circulation is no longer sufficient to carry on the business of the country; and for this change there is a remedy at hand in a carefully organized system of statistics, whereby to calculate the steady growth of the population, trade, commerce and wealth of the nation, so that the necessary amount of money may be increased accordingly. If it is objected, that such a power of issuing more money vested in Congress must lead to constant uncertainty as to the amount of money in circulation, I reply:

1. All possibility of an illegitimate over-issue of money is precluded by my proposed system of annual statistics, which will show every year the amount of money needed to carry on the whole business of the United States.

2. And I ask in return, how is the present money of account (which I propose to supplant in part by my system of absolute money) regulated in regard to the amount serving as a medium of circulation ? Certainly not by any legislation. Banks spring up as the necessities of trade and commerce require their assistance, and deal in checks and bills of exchange as money of account, to the extent required by the needs of business. There is no legal guard against an over-issue under the present system of money of account;[**] and hence it is rather hypercritical to ask such guards of my system. Nevertheless, I have shown that my system can and does furnish checks, since it works not, as the present banking system, on "instinct" as it were, that is, on pure chance, but on a scientific method.

3. I ask further: When you have a coin basis, have you any protection against an undue increase of the circulating medium ? None in the world. If a new gold mine is discovered, your amount of money is suddenly increased to that extent. Hence the alarm of some foolish financiers, when the vast gold mines of California and Australia, and the silver mines of Nevada, Montana, Utah and New Mexico were opened. "There will be an over-issue of money," cried they; "gold will depreciate probably even below the value of silver !" Nevertheless, nothing of the kind occurred, although twenty-four hundred million dollars of the precious metals have been added to the

** This is a fact, which generally escapes attention, and which yet must be evident to every observant mind the moment it is pointed out. A government, we hear it always said, must not have the power to issue money, because it is impossible to limit the volume of the issue definitely, and hence to prevent over-issue. Admitting, for the sake of the argument, that this were so, why is the same objection not applied to Banks of Discount and Deposit, that exercise every day the power to increase the money of account (cheques and drafts), which is used for the same purposes as bank-notes ? Why should the banks have and exercise the power of over-issuing (by excessive discounts), and why should the same people, who show no fear at all of the effects of this over-issue of money of account upon trade and prices, exhibit such excessive terror at an over-issue of paper currency ? The absurdity of this clamor has been well pointed out by Mr. Thomas Tooke, in his *Inquiry into the Currency Principle*, chapters III and V. The loans of the United States during the war times were nothing less than an "over-issue" of the world's money of account; so was the Five Milliard loan of the French government; and yet both of these "over-issues" combined have neither disturbed prices nor thrown the financial world into convulsions. On the contrary, both "over-issues," or increases of money, have proportionately increased the prosperity of the world.

world's coin money from these mines. Prices are substantially the same now as they were when the California, Australia, Nevada and other mines were first opened.

4. Congress has always had the power to increase the amount of the circulating medium of commercial interchange in the United States by the issue of a new loan. If we can entrust Congress with that power, why should we be apprehensive of empowering it to enact laws authorizing the issue of treasury notes to replace the bonds ? The bonds —cannot repeat it too often— are in the main just as much money as the bank-notes; and I object to them chiefly on the ground, that they are so ruinously expensive on account of the coupons attached to them. It is far more dangerous to grant Congress the power to issue an unlimited amount of bonds, than to authorize it to issue more money upon the report of a Board of Commissioners, based upon carefully gathered statistics, and well prepared tables, showing the progressive ratio for the increase of the absolute money, required by the extent of trade, bills of exchange, money of account, commerce, and the annual products.

5. I may add, in conclusion, that a further check against both over-issuing and counterfeiting can be found in adopting the rule of the Bank of England, to cancel its notes as they are presented and issue new notes in their place. Of course, this rule would have to be modified somewhat to suit the characteristics of an absolute money. The treasury books of the money issue would at the same time be balanced quarterly, to guard against losses and peculations.

chapter II.

Absolute Money Superior to Every Bond Scheme.

The Superiority of Absolute Money over every Bond Scheme — Exclusive Legal Tender of the Country — Criticism of the Interconvertible 3.65 Bond and Legal Tender Scheme — Its Absurdity, Expensiveness and Frauds.

Such a money, then, always proportioned in amount to the requirements of the country, would be a blessing to the people, and not rest upon them like a curse, as that part of our money does, which is called bonds, and 'which crushes the life of the nation out by the weight of its enormous interest, amounting now to over one hundred million dollars a year. It is in this that my system differs from those of others, who otherwise have proposed a similar currency for our country. They would still have two kinds of money —legal tender note, and an interest-bearing bond, not a legal tender; while I would have no bond at all, and hence would save the people of the United States those one hundred millions of interest per year, under the burden of which they now groan. To make their proposition seem more plausible, they advance in behalf of their scheme, that their bonds and legal tenders are to be interconvertible, and that the interest on their bonds is to be very low; and they consider it very ingenious that they have fixed its rate at 3.65 per annum, or one cent interest per day on $100. On leap-years, of course, the holders of the bonds would have to throw in an extra day. So much has been said in support of this scheme, that I shall more at length expose its main fallacies and defects.

The first great objection is one that applies to all bonds issued by a sovereign nation. What are those bonds ? They are a commodity created out of the national sovereignty, and their sale in the money markets of the world is a degrading and dangerous hypothecation of what a nation should hold dearest: its sovereignty and national credit. It pawns its life and independence to foreigners, and pays them a ruinous premium (in interest) for the sacrifice of the bonds. The disgrace is as deep as that of the cooley who sells himself into slavery. But it is not only a disgrace, it is also an eminent danger. When unforeseen financial disasters throw a nation into bankruptcy, its very existence is at the mercy of its creditors. We have seen how Napoleon III. took advantage of the bankruptcy of Mexico, to take possession of the country. It is a danger which no nation can afford to risk. This is the main political objection.

The main financial objections are, first, that the bonds are to bear interest, which means, the government is to pay the holders of the bonds a premium (called interest)* for the privilege it extends to those holders of having a universal medium of interchange in the United States. What would the banks say if they were requested to pay, instead of to charge for the drafts which they issue ? The absurdity is transparent. The government bond serves all the purposes of Exchange. It enables men in San Francisco to settle with men in New York by its means quite as effectually as by a

* And government not only pays those bondholders direct interest on the bonds, but pays them a further indirect premium, by exempting the bonds from taxation, another important item of expense, which my money system proposes to save to the people of the United States.

banker's draft, and with far greater security. Why, then, should the government pay for affording the means of that settlement, when the bankers charge for it, though they have not more than 1-100000th part of the wealth or power of the government ?

This whole interest-paying business by a government is, indeed, a gross **fraud** upon the people, devised for the exclusive benefit of the bondholders, and the 3.65 inter-convertible scheme is all the greater fraud, in that it would swell the interest account of our government still more, by what its originators consider its peculiar and most recommendable feature. For let us look a little closer at this inter-convertibility, and the way in which it would operate.

It is proposed to let the holders of legal tenders have the privilege of changing them in sums of fifty or one hundred dollars for interest-bearing bonds, and when they need the legal tenders again, to give them back currency for the bonds; the holders of those bonds receiving the interest from the government for the time that they have held the bonds, or, in other words, making the government pay them for the service it has rendered to them. The natural consequence would be, that every holder of money would prefer to hold the bond, since it would serve him all the purposes of money, and at the same time earn him an interest, which the taxpayers of the country would have to pay.** Hence the legal tender notes used by the people would be reduced to the lowest possible minimum, and the amount of bonds outstanding would be constantly at the highest maximum. And this scheme, which so plainly increases our interest account, and would thus make taxation still more oppressive than it is now, is placed before the public under the guise of a benefit to the laboring masses ! It is hard to tell whether the authors of the scheme were too **ignorant** to see its immediate effects, **or** whether they **purposely** endeavored to **deceive** by false representations.

Another very serious defect in the plan, is that it would involve the necessity of keeping on hand, in the principal cities of the country, quantities of 3.65 bonds and currency, so large as to invite official defalcation and burglary on a fearfully extensive scale. Hundreds of millions would have to

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** This, again, involves another dangerous element of the scheme, which is thus pointed out by Hon. Amasa Walker, universally recognized as an eminent financier:

"To invest in sink bonds from time to time, drawing interest at the rate of 3.65 per cent. as proposed, and hold them until the moment most favorable for an intended movement, and then at the shortest notice convert them into money wherewith to flood the local market, must be as great a convenience to one who is operating for a profitable corner, as any Wall-street operator could desire.

The objection that such a flood of money would immediately seek reinvestment in the bonds, and hence could not create a panic, has no force. A single day's contraction or expansion can produce very serious disturbances in the monetary affairs of a large city. But if those bonds and the currency were in reality so interconvertible as to be in all respects the same, there would, of course, be only one money in use, and that would be the bonds. We should then have the anomalous spectacle of a people issuing a currency to itself, upon which it would pay 3.65 per cent. Interest to itself, to pay which interest it would again have to tax itself. Can absurdity go further ?

If the bonds, therefore, are immediately convertible into currency, and vice versa, there is no use for the currency; we shall have only bonds in circulation, and make fools of ourselves by paying ourselves interest. If they are not so immediately convertible, however, Mr. Amasa Walker's objection and my own remain in full force; and the people will have to pay the interest to a limited class of bondholders, and give them besides the power to make "a profitable corner in Wall street" every day.

be kept constantly on hand in a city like New York, for instance, and in every section of the country the government would have to locate conversion offices and appoint special officials.

These officials, of course, would be placed under bonds; but it would be absolutely impossible to procure adequate security on their bonds. About one thousand million of dollars of bonds and money would every day be in their hands and under their direct control. Will any experienced financier advocate exposure of such an amount of capital in the hands of government officials ? But even if the army of office-holders, thus created, should be honest enough to withstand the great temptation daily placed before them; should neither steal privately nor combine with professional burglars for robbery, as was done in the Washington safe affair; nor organize rings for collecting the whole interest on the bonds entrusted to their charge for inter-conversion, whether they were converted or not; and even if they were efficient enough to protect their treasuries against the assaults of the burglars and thieves: they still would wield a political power in their hands that would be a constant danger to our republican institutions, and would certainly tend to still further increase political demoralization.

Under my system no such risk would be run of entrusting 1,000,000,000 of dollars in 3.65 bonds and currency to the guardianship of government officials. The money of the country would be in the hands and under the care of its legitimate owners, and the additional issues that might be made would also merely pass through the hands of government officials to go at once into the hands of those who would sell or exchange their commodities for them. Far from fluctuating in value, as gold does now, this absolute money could not possibly fluctuate, as I have already shown.

Why, then, all this oppressively expensive and ruinously demoralizing system of a double kind of money, bonds and currency ? Practical advantage of any kind, it surely possesses none. If the men, who advocate it, would rally round my plan of having only one kind of money, and that a universal legal tender, they would not only logically carry out their premises, but would also help to make it possible to realize something tangible in the regulation of our finances. It ought to be clear to them, that the coin despotism cannot be broken down by substituting in its place the despotism of interest-bearing bonds. If national legal-tender money is not of itself sovereign and absolute, but must be convertible into some other substance or thing before it can command universal circulation, what matters it whether that other substance or thing be interest-bearing bonds, or gold and silver coin ?

Indeed, the coin would be even preferable, if a sufficient quantity could be had, as carrying no interest. It is, I repeat, in thus insisting that there shall be only one kind of money —intrinsically, that is, so far as the material of which it is composed is concerned, without any value whatever, but so far as its form is concerned, a representative of the country's whole sovereignty, power and wealth —that my system is fundamentally different from all other theories; and I suppose it is chiefly because it is so very simple in its usefulness, economy and representation of absolute values, that it has been so generally misapprehended.

chapter III.

Relation of Absolute Money to Coin.

Relation of Absolute Money to Coin — Gold and Silver must fall in Price when no longer Legal Tender — No need of Redemption of Absolute Money in Coins, it being convertible in all the Commodities, Products, Metals and Revenues of the Nation — John C. Calhoun —Thomas Jefferson — M.E. Davis — R.H. Patterson — Practical Benefits of having a National Legal Tender Irredeemable in Specie — Disastrous Results of Pretending to have a Specie Basis — It leads to Panics, and by Contraction of Bank Circulation and Deposits, Aggregates their Disastrous Effects — Panics not Caused by "Overissues" or "Overtrade."

It is my firm conviction, that if the United States government were to create such a paper money system, and make it exclusively legal tender in the United States, gold would soon lose its present fictitious value and fall below par in price, just as silver fell below par in Germany, when the government of the German empire had stripped off from it its legal-tender prerogative.

If this seems absurd to some of my readers, let them look at the financial condition of China or East India. Gold is not taken in either country as money; indeed 600 millions of the civilized population of the globe refuse to accept gold as money. Merchants, who took £20,000 in gold to the Bank of Calcutta in 1864, when money was scarce, could not get a single bank-note or rupee advanced upon it. "The price of gold sunk so low," says the *Bombay Times* of that year, "that it could have been reshipped to London at 3 per cent, profit." And simply for the reason, that gold was not a legal-tender in India.

There can be no doubt that gold would soon share the same fate in the United States, if my scheme of absolute money were adopted. For with such an actual national legal-tender money, of what use would gold be except in the arts, and in part for foreign exchange ? It is estimated that there are about three hundred million dollars of gold coin now in the United States, hoarded in stockings, trunks, safes, banks, and the federal treasury. It is true that for a while, after the passage of an act creating absolute money, coin might still be hoarded; but as the government would not need to be in any hurry to purchase it for the payment of its gold obligations, the hoarders of coin would soon tire of hoarding and make use of the much handier and unfluctuable legal-tender money of the government.

There would be absolutely no use for "redemption" of legal tender in coin, and hence no demand for it.* It is true that so long as the paper

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* "The objection that such money is irredeemable has no validity, since our own experience has shown that the inferior legal-tender currency, not receivable for duties, needed no other redemption than to be receivable at par, as it now is, for all articles for sale in the United States. Money is only a vehicle, a medium for trade and business. It needs only to be made current by law, as Treasury notes are now; and the government has already established its lawful power to make the national currency current money throughout the republic. Since the national money of an inferior grade has answered this purpose thoroughly for ten years past, a complete legal-tender currency will serve us now and hereafter, though it were quadrupled by the redemption of the 5-20 bonds. There is no other way, in ray opinion, to meet our financial embarrassments created by the acts of Congress of 1869-70, subjecting us to the coin despotism. There is no other way to liquidate the national debt, and this will do so, fully and justly. It is a public necessity to adopt this plan, which will meet no

money of this country was issued by private banks and bankers, and was not a legal tender, there had to be a sort of redemption; since the paper money itself neither had nor pretended to have any value of its own. It was a mere promise to pay a certain quantity of gold or silver upon its presentation, a negotiable note, in fact, which, like all other negotiable notes, fell and rose in price in the market, according to the supposed ability of the issuer of the notes to redeem his promise.

But this absolute money could not so rise and fall; it being not redeemable in specie, or, indeed, in any specific other thing, though at the same time "redeemable" in, or rather receivable for and convertible into all the commodities of the nation, and the exclusive legal tender for all payments, salaries, judgments, fines and debts. Redeemability in coin would only cripple it within the limits of the coin to be had; but its absolute legal-tender convertibility and receivability for all payments would place it utterly beyond the reach of panics and the disasters attendant upon the fluctuation of the prices under a money medium redeemable in coin.

Private persons and private corporations are not able to guaranty their issues of money, so as to make them absolute and sovereign. Only governments can do this. Only a government can issue a money that, representing the sovereignty and wealth of a whole nation, and known to the law as the only legal tender and money measure, can purchase every article and property, or satisfy every claim and judgment in the country.[**] Metallic money would always be vendible, but the national paper money would never be vendible. Every other thing would be purchasable, but itself would never be purchasable.

An able writer on this subject, Mr. M.E. Davis, who still clings, however, to the heresy of having two kinds of money —interest-bearing bonds 3.65, and legal tender notes— expresses about the same idea in his pamphlet published in 1874, as follows:

opposition, except from bondholders, national banks, and money-monopolies; and even these are really interested to favor it; if the national debt cannot otherwise be paid. The success of this policy would free us at once from enormous burdens, rushing and crippling all branches of trade and industry. It would enable the government very soon to reduce the federal taxes and tariff seventy-five percent., and cause the latter in a few years to cease altogether, when free trade, the greatest boon to a free people, would shower its glorious blessings upon all industries, productions, trade, and commerce." — *Liberty and Law*. pp. 262-3

** John C. Calhoun, one of the greatest American statesmen since the revolutionary period, has stated these same propositions in so clear and emphatic a manner in a speech in the United States Senate on the currency issue, that I cannot forbear quoting from him. He says :

"It appears to me, after bestowing the best reflection I can give the subject, that no convertible paper —that is, no paper whose credit rests upon a promise to pay— is suitable for currency. It is the form of credit proper in private transactions between man and man, but not for a standard of value, to perform exchanges generally, which constitute the appropriate functions of money or currency. ..... No one can doubt but that the government credit is better than that of any bank —more stable and more safe." ---September 18, 1837.

"Bank paper is cheap to those who make it, but dear, very dear, to those who use it, fully as much so as gold and silver. ..... On the other hand, the credit of Government, while it would greatly facilitate its financial operations, would cost nothing, or next to nothing, both to it and the people, and of course would add nothing to the cost of production, which would give every branch of our industry, agriculture, commerce, and manufactures, as far as its circulation might extend, great advantages both at home and abroad." ---October 3, 1837.

"I now undertake to affirm positively, and without the least fear that I can be answered, what heretofore I have but suggested—that a paper issued by government, with the simple promise to

"True money is not wealth any more than the deed for a farm is the farm itself; and there is no more use in having our money made of gold than in having our deeds drawn upon sheets of gold. An other common and erroneous idea is, that if we have paper money, it must have a gold basis. This is not only unnecessary, but impossible, and the effort to retain gold as money is highly destructive to the interests of industry. The material of money should have, as nearly as possible, no intrinsic value. We now have a government currency of about 800 millions, all paper. Suppose we could put into circulation 200 millions gold coin —and this is the maxim, we are able to issue— and suppose this would enable us to withdraw an equal amount of paper, and to keep temporarily (and it would only be temporarily) the remaining portion of paper on a par with gold, we should still have 400 millions without a specie basis. We should then have 'resumed' but as half our currency would have no specie basis, how long should we continue resumption ? With, the power of the gold gamblers on one side and our immense foreign debt on the other, not a month; and if these interests can ever decoy us into resumption, until we have a gold dollar in hand for every note out, we shall have a continuation of days that will make 'Black Friday' seem like sunshine."

And again:

"Still many people cling to the idea that paper money must be redeemed by gold money. We can not see why it should. Why change paper money into gold money, and then gold money into the things we buy ? Why not change the paper money itself into these things ? Gold money is mainly good to exchange wealth. Greenbacks will do the work as well. The stamp of our government gives to our paper money the power of gold money so far as home trade is concerned."

The practical benefits which result from having a national currency, not redeemable in specie, was strikingly illustrated at the time of the last great panic of 1873. If we had then a specie basis, we should, undoubtedly, have witnessed a general rush of the holders of greenbacks upon the banks; a rush that must of necessity have produced the suspension of all banks, and bankers, and wide-spread ruin, distress and bankruptcy. There would have been a state of affairs quite as disastrous as that of the year 1857, when we had the "gold basis," of which so much nonsense is written as constituting the only safe and wise financial basis for a money system. Did it save us

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receive it in all its dues, leaving its creditors to take it or gold and silver, at their option, would, to the extent that it would circulate, form a perfect paper circulation, which could not be abused by the government; that would be as steady and uniform in value as the metals themselves; and that if, by possibility, it should depreciate, the loss would fall, not on the people, but on the government itself; for the only effect of depreciation would be virtually to reduce the taxes, to prevent which the interest of the government would be a sufficient guarantee. I shall not go into the discussion now, but on a suitable occasion I shall be able to make good every word I have uttered. I would be able to do more —to prove that it is within the constitutional power of Congress to use such a paper, in the management of its finances, according to the most rigid rule of construing the Constitution; and that those, at least, who think that Congress can authorize the notes of private State corporations to be received in the public dues, are estopped from denying its right to receive its own paper." ---March 22, 1838.

And Thomas Jefferson, one of the most prominent founders of the American system of federative government, in his letters to Mr. Eppes says:

"Bank paper must be suppressed, and the circulating medium must be restored to the nation to whom it belongs. It is the only fund on which they can rely for loans; it is the only resource which can never fail them, and it is an abundant one for every necessary purpose. Treasury bills, bottomed on taxes, bearing or not bearing interest, as may be found necessary, thrown into circulation will take the place of so much gold and silver, which last, when crowded, will find an efflux into other countries, and thus keep the quantum of medium at its salutary level." ---September 11, 1813.

then ? On the contrary. In their mad phrenzy to possess coin, the golden idol of the God of Mammon, which the people had been taught to worship as the only safe value, the holders of currency "made runs" upon every bank in the country, and, consequently, broke them all down. Did the "specie basis" save the German Empire when the great "crash" of Berlin and Vienna occurred almost simultaneously with our own of 1873 ? Far from it. Suffering, as we undoubtedly are still, from the effects of our panic, that suffering has been confined to a limited sphere —chiefly to our industrial interests— and is already in part forgotten, although the increase of our annual products has been so great that the volume of currency has become altogether too small for the transaction of the trade and business of the country. But in Germany where the "specie basis" holds sway, the suffering in trade is rather increasing in intensity. Does a "specie basis" keep England free from monetary panics ? By no means. It is an established fact, that such panics occur in England every ten years, and every once in a while a mysterious and unaccountable drain for gold is going on at the Bank of England.

Let Mr. R.H. Patterson, one of the foremost financiers of Great Britain, state the absurdity and destructiveness of keeping the financial prosperity of that immensely wealthy country dependent upon the presence in or absence of a few millions of gold from the Bank of England, and show how all the money panics, that have visited Great Britain, are traceable solely to this cause. After showing how the withdrawal of gold from the Bank of England is immediately followed by raising the rate of interest and curtailing discounts, and how the "golden base then begins to oscillate," until "the greater oscillations are felt like the shocks of an earthquake," and terror and disaster are spread over the whole country, Mr. Patterson proceeds:

> "Is there not something wrong here ? Ought the presence or absence of a few millions of gold to make the vast difference between national prosperity on the one hand and national disaster and wide-spread suffering on the other ? How will posterity speak of us, when it sees that we made the huge fabric of our national industry stand like an inverted pyramid, resting on a narrow apex formed of a chamberful of yellow dross ? Will they not laugh at our folly, our barbarism ? When the usual supply of gold is temporarily diminished, why should our usual credit system be restricted in proportion, or totally suspended ? Of what use is credit but to take the place of payments in coin ? Was it not for this purpose, and for this alone, that credit and paper money were adopted ? Why then not make use of our credit system as a means of compensating the temporary absence of gold ? Why not tide over the difficulty, instead of aggravating it ? and so avoid the tremendous sufferings which are ever recurrent under our present system of monetary legislation." —*Economy of Capital*, page 169.

With still greater emphasis and outspoken candor, he says, at page 455:

> "Paper money during the last century served the purpose of supplementing the inadequate supply of gold money in ordinary times; what it must be made to do now is, to supplement that deficit also in extraordinary times —or rather in times which, though once extraordinary, have now become common, or, at least, of steady recurrence. It was only in times of war that our fathers, the men

> of the past generation, found their currency system inadequate; and at such times they boldly altered it, as they did not choose to be strangled for the sake of a theory. But commerce has so greatly extended in our day, so many nations now eagerly engage in it, a drain of gold-money, which formerly used only to occur in times of war, has become a steadily recurrent feature of our commercial history, even in times of peace. Every ten years such drains (money crisis) are becoming more certain in their occurrence, and more terribly severe in their consequences. They have become ordinary occurrences, and must be provided for in our ordinary legislation * * * There are various ways in which this may be done, and it is of comparatively little moment which of these be adopted. But let it be done."

I am well aware, however, that these periodical panics that shake the financial world are generally attributed to other causes than I have assigned, and than those which Mr. Patterson points out so lucidly.

There is, for instance, an old and current theory of finance, that so called "over-issues" of bank notes being the chief cause of alleged "over-trading," and hence of the periodical drains for gold, upon banks having a "specie basis," are the real causes of monetary panics; but the remedy prescribed —to contract the bank issues of paper money whenever any drain is made for coin— always aggravates the disorder.

The only test applied by those theorists of the specie basis school, has always been, is there a drain of gold upon the banks ? If so, it was held to be conclusive proof of over-issues and of over-trading —to stop which it was deemed necessary to punish over issuing and over-trading by raising the rate of interest, contracting bank discounts and rapidly diminishing the volume of circulating bank notes.

This whole theory is simply a fraud —a scheme invented by money kings to harass trade and speculate upon the ruin of traders and manufacturers. The scheme is founded upon the idea, that coin is the only possible base for a paper money circulation, and that redemption in coin is absolutely essential to the validity and existence of paper money. Logically following their premises, those theorists argued further, that their specie basis scheme was only to be carried out by regulating the amount of bank-note issues, by the amount of coin in the vaults of the bank. This was supposed to be a shrewd contrivance to protect the gold in the bank vaults from being withdrawn; but, oddly enough, the carrying out of this policy inevitably led to still more extensive runs upon the banks by bill-holders and depositors, since money became in still greater demand as the banks contracted their issues, and revulsions and suspensions followed as the natural result.

Ever since the adoption of paper money, by far the greater majority of the banks and bankers in all parts of the world have advocated and supported this false theory of finance, in order to perpetuate their power under the coin despotism. Nearly all the monetary revulsions have been falsely charged to over-issues, over-trading and over-importations, while the true cause of those monetary panics was to be found only in that false theory of finance which directly tended to produce them, and has in every case of its application brought a drain upon traders and manufacturers.

It never occurred to the directors of banks, that a run for gold could be stopped by enlarging the money issues of the banks. Even the British Parliament in 1844 committed the gross blunder of enacting a statute that required the Bank of England to contract its bank-note circulation, whenever a drain for gold commenced upon it. This was a solemn Parliamentary recognition of that false theory of finance, and it brought on and aggravated the panics of 1847 and 1857. The destructive force and terrible consequences of the panic of 1857, compelled Parliament to repeal the obnoxious act of 1844, so as to permit the Bank of England to issue bank-notes to prevent the run upon the bank for coin; and the repeal had the desired effect.

It had been believed as an article of financial faith, that no drain of gold would commence, unless there had been an overissue of bank currency, followed by over-trading and a consequent depreciation of the value of the bank currency issues. Acting upon this naive theory, the financiers of those days had but one common aim: to accumulate gold in the bank vaults, and prevent the bill-holders and depositors from drawing it out. It was supposed that gold was the grand centre around which all financial operations — trade, commerce and manufactures— evolved, and that without it financial chaos and ruin must set in. Hence all the bank acts and other schemes to protect gold in the bank vaults from removal, as the visible metallic centre of the world's finances. The innocent coin worshippers never dreamed that any flaw could exist in their theory. They knew that gold was the beginning and the end of all financial operations, because they had received it as a sacred tradition from their ancestors. Holding, therefore, that gold must be kept in the vaults of the banks of issue, so as to support the issues and keep trade healthy and active, the general policy of all banks, organized on a specie basis, has been to contract the currency issue, whenever for any cause a run was made upon the banks for gold.

But this contraction of the bank issues, far from having the supposed effect, as I have already stated, has in all cases only aggravated the run upon the banks for gold, and forced on a suspension of specie payments. Why have the financiers of the world been struggling with this problem for a century, without solving it ?

The obvious reason why panics occur in the monetary world, is because the circulating medium becomes too small to carry on the trade of the world, which is rapidly increasing far beyond the rate of increase in money, and hence periodically causes a scarcity of money. When a scarcity of money begins to be manifest, the manufacturers and tradesmen immediately feel the pressing need of it, and seek to supply it for their trade from every money channel open to them, and this necessity expands in every direction, until multitudes of people are simultaneously struggling in all directions to obtain money for immediate use. Everything, then, tends to increase the pressing demand for money, while its volume is rapidly contracting. The people driven by their great necessities, arising from this money dearth, go to the banks for relief. But the banks, being already well advised that money is scarce, very scarce, refuse to discount bills and issue

their paper money. Then the pressure becomes greater than ever. And the banks now refuse even to renew the notes of their customers, hoping thus to draw in their circulation and save their gold. Then the people, in their desperation, start runs for gold upon the banks, and the result is general suspension, ruin and bankruptcy.[$]

Indeed, as the trade and business of the world increases, the narrowness of the gold basis becomes steadily narrower, the scarcity of coin becomes greater, and the revulsions called "monetary earthquakes" are more terrible. For, as the coin basis becomes more limited, in proportion to the gigantic advance of trade and manufactures, the money of account and bills of exchange must be enlarged to meet the demand. But if the bank issues and credits are withdrawn, the immense volume of money of account and bills that never have any specie basis, become wholly unmanageable, and trade is strangled for the want of any kind of money wherewith to carry on its operations. Although it is well known that there is much less than five per cent. of coin money engaged in carrying on trade, and that in fact not more than five per cent. of coin exists in the whole civilized world to represent bank issues, bills and money of account, yet the majority of financiers pretend to believe, and perhaps do believe, that the trade, commerce, business and manufactures of the world may be carried on upon a coin basis, which is simply impossible.

It seems to me that this utter insufficiency of a pretended gold basis, and the ruinous effects to which it gives periodically rise, have been now so clearly illustrated, both by theory and the experience of centuries, that no one, who is not wilfully blind, can refuse to acknowledge that the prosperity of mankind imperatively demands the abolition of specie as a basis for our money issues.

The only safe money system is a national legal-tender currency, not based upon metallic coins, but upon all the manufactures, trade and commodities of the nation which issues it, supported by all that nation's sovereignty, wealth and power. The opponents of such a national money generally refer to the issue of the French Assignats, the American Continental money, and especially John Law's money scheme, in proof of its impracticability. Though the objection is not pertinent, I shall follow it up, and illustrate its inapplicability by a review of those "national" money issues.

$ So, it is not the credit system ? It is not the credit bubble ? We should just keep printing credit notes ? We should just keep on extending credit ?

My appendix to Mr. Hill's this here chapter 3, in which he cited Thomas Jefferson and John Calhoun. On Monday, February 19, 1838, Senator Henry Clay of Kentucky, an attorney in standing for the Bank of the United States, a religious supporter of the central bank concept, and a fervent opponent of the Independent Treasury, addressed the Senate at length, in opposition to the bill proposing to establish an Independent Treasury. During his long missive he, for some reason, explained to his audience that government notes would be the best (large denomination) paper currency the nation ever had, and ever could have; and how these government notes would drive from the field the notes of banks---

It was deemed necessary, no doubt to vest in the Secretary of the Treasury this vast and alarming discretionary power. A new and immense Government bank is about to be erected. How it would work in all its parts could not be anticipated with certainty; and it was thought proper, therefore, to bestow a discretion commensurate with its novelty and complexity, and and adapted to any exigencies which might arise. The 10th section of the bill is that in which the power to create a bank is more particularly conferred. It is short, and I will read it to the Senate:

> "Sec. 10. *And be it further enacted*, That it shall be lawful for the Secretary of the Treasury to transfer the moneys in the hands of any depositary hereby constituted, to the Treasury of the United States; to the Mints at Philadelphia; to the Branch Mint at New Orleans; or to the offices of either of the receivers-general of public moneys, by this act directed to be appointed; to be there safely kept, according to the provisions of this act; and *also to transfer moneys in the hands of any one depositary constituted by this act to any other depositary constituted by the same*, at his discretion, and as the safety of the public moneys, and the convenience of the public service shall seem to him to require. And for the purpose of payments on the public account, it shall be lawful for the said Secretary *to draw upon any of the said depositaries, as he may think most conducive to the public interests*, or to the convenience of the public creditors, or both."

The last paragraph in the section provides that, for the purpose of payments on the public account, it shall be lawful for the Secretary to draw upon any of the said depositaries, as he may think most conducive to the public interest, or to the convenience of the public creditors, or both. It will be seen that no limit whatever is imposed upon the amount or form of the draft, or as to the depositary upon which it is drawn. He is made the exclusive judge of what is "most conducive to the public interests."

Now, let us pause a moment, and trace the operation of the powers thus vested. The Government has a revenue of from 20 to 30 millions. The Secretary may draw it to any one or more points, as he pleases. More than a moiety of the revenue arising from customs is receivable at the port of New York, to which point the Secretary may draw all portions of it, if he think it conducive to the public interest. A man has to receive, under an appropriation law, $10,000, and applies to Mr. Secretary for payment. Where will you receive it ? he is asked. On New York. How ? In drafts from $5 to $500. Mr. Secretary will give him these drafts accordingly, upon bank-note paper, impressed like and simulating bank notes, having all suitable emblazonry, signed by my friend the Treasurer, (whose excellent

practical sense, and solid and sound judgment, if he had been at the head of the Treasury, instead of Mr. Levi Woodbury, when suspension of specie payments took place, would have relieved and mitigated the pecuniary embarrassments of the Government and the people,) countersigned by the Comptroller, and filled up in the usual way of bank notes.

Here is one of them, said Mr. Clay. [He here held up to the gaze of the Senate a Treasury note, having all the appearance of a bank note, colored, engraved, and executed like any other bank note, for $50.]

This, continued Mr. Clay, is a Government post note, put into circulation, paid out as money, and prepared and sent forth, gradually to accustom people of this country to Government paper.

I have supposed $10,000 to be received in the mode stated by a person entitled to receive it under an appropriation law. Now let us suppose what he will do with it. Any where to the South or West it will command a premium of from 2 to 5 per cent. Nowhere in the United States will it be under par. Do you suppose that the holder of these drafts would be fool enough to convert them into specie, to be carried and transported at his risk? Do you think that he would not prefer that this money should be in the responsible custody of the Government, rather than his own insecure keeping ? Do you think he will deny to himself the opportunity of realizing the premium of which he may be perfectly sure ? The greatest want of the country is a medium of general circulation, and of uniform value every where. That, especially, is our want in the Western and interior States. Now, here is exactly such a medium; and, supposing the Government bank to be honestly and faithfully administered, it will, during such an administration, be the best convertible paper money in the world, for two reasons: The first is, that every dollar of paper out will be the representative of a dollar of specie in the hands of the receivers general, or other depositaries; and, secondly, if the receivers general should embezzle the public money, the responsibility of the Government to pay the drafts issued upon the basis of that money would remain unimpaired. The paper, therefore, would be as far superior to the paper of any private corporation as the ability and resources of the Government of the United States are superior to those of such corporations.

The banking capacity may be divided into three faculties: deposites, discount of bills of exchange, and promissory notes, or either, and circulation. This Government bank would combine them all, except that it will not discount private notes, nor receive private deposites. In payments for the public lands, indeed, individuals are allowed to make deposites, and to receive certificates of their amount. To guard against their negotiability, a clause has been introduced to render them unassignable. But how will it be possible to maintain such an inconvenient restriction, in a country where every description of paper imposing an obligation to pay money or deliver property is assignable, at law or in equity, from the commercial nature and trading character of our people ?

Of all the faculties which I have stated of a bank, that which creates a circulation is the most important to the community at large. It is that in which thousands may be interested, who never obtained a discount, or made a deposite with a bank. Whatever a Government agrees to receive in payment of the public dues, is a medium of circulation, is money, current money, no matter what its form may be, Treasury notes, drafts drawn at Washington, by the Treasurer, on the receiver general at New York, or, to use the language employed in various parts of this bill, "such notes, bills, or paper, issued under the authority of the United States." These various provisions were probably inserted not only to cover the case of Treasury notes, but that of these drafts in due season. But if there were no express provision of law, that these drafts should be receivable in payment of public dues, they would, necessarily, be so employed, from their own intrinsic value.

The want of the community of a general circulation of uniform value everywhere in the United States would occasion vast amounts of the species of drafts which I have described to remain in circulation. The appropriations this year will probably fall not much short of 30 millions. Thirty millions of Treasury drafts on receivers general, of every denomination, and to any amount, may be issued by the Secretary of the Treasury. What amount would remain in circulation cannot be determined a priori, I suppose not less that 10 or 15 millions; at the end of another year, some 10 or 15 millions more; they would fill all the channels of circulation. The war between the Government and State banks continuing, and this mammoth Government bank being in the market, constantly demanding specie for its varied and ramified operations, confidence would be lost in the notes of the local banks, their paper would gradually cease to circulate, and the banks themselves would be crippled and broken. The paper of the Government bank would ultimately fill the vacuum, as it would instantly occupy the place of the notes of the late Bank of the United States.

---[These government notes would not have been for general use. In 1838, working people earned a dollar or less, a day ---a $50.00 note was a large denomination, not for the use of working people; even a $5.00 note would have been a week's pay in one note.]

A bit more from John Calhoun's** address on September 18, 1837:—

The union between banks and Government is not only a main source of that dangerous expansion and contraction in the banking system which I have already illustrated, but is also one of the principal causes of that powerful and almost irresistible tendency to the increase of banks, which even its friends see and deplore. I dwelt on this point on a former occasion, (on Mr. Daniel Webster's motion to renew the bank charter, March 21,

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** John Caldwell Calhoun 1782-1850; Representative 1811-1817; Secretary of War 1817-1825; Vice-President 1825-1829 –while J.Q Adams was President and Henry Clay Secretary of State; Vice-President 1829-32 –Andrew Jackson's first term; Senator 1832-1843, 1845-1850; Secretary of State 1844-45.

1834,) and I will not repeat what I then said. But, in addition to the causes then enumerated, there are many others very powerful, and among others the one under consideration. They all may be summed up in one general cause. We have made banking too profitable—far, very far, too profitable; and I may add, too influential. One of the most ample sources of this profit and influence may be traced, as I have shown, to the connexion with the Government; and is, of course, among the prominent causes of the strong and incessant tendency of the system to increase, which even its friends see must finally overwhelm either the banks or the institutions of the country. With a view to check its growth, they have proposed to limit the number of banks and the amount of banking capital by an amendment of the constitution; but it is obvious that the effects of such amendment, if it were practicable, would but increase the profits and influence of bank capital; and that, finally, it would justly produce such indignation on the part of the rest of the community against such unequal advantages, that in the end, after a long and violent struggle, the overthrow of the entire system would follow. To obviate this difficulty, it has been proposed to add a limitation upon the amount of their business; the effects of which would be, the accommodation of favorites, to the exclusion of the rest of the community, which would be no less fatal to the system. There can be, in fact, but one safe and consistent remedy—the rendering banking as a business less profitable and influential; and the first and decisive step towards this is a disseverance between the banks and the Government. To this may be added some effectual limitation on the denomination of the notes to be issued, which would operate in a similar manner.

There is another and a final reason which I shall assign against the reunion with the banks. We have reached a new era with regard to these institutions. He who would judge of the future by the past, in reference to them, will be wholly mistaken. The year 1833 marks the commencement of this era. That extraordinary man [Andrew Jackson], who had the power of imprinting his own feelings on the community, then commenced his hostile attacks, which have left such effects behind, that the war then commenced against the banks, I clearly see, will not terminate, unless there be a separation between them and the Government, until one or the other triumphs—till the Government becomes the bank, or the bank the Government. In resisting their union, I act as the friend of both. I have, as I have said, no unkind feeling toward the banks. I am neither a bank man, nor an antibank man. I have had little connexion with them. Many of my best friends, for whom I have the highest esteem, have a deep interest in their prosperity, and, as far as friendship or personal attachment extends, my inclination would be strongly in their favor. But I stand up here as the representative of no particular interest. I look to the whole, and to the future, as well as the present; and I shall steadily pursue that course which, under the most enlarged view, I believe to be my duty. In 1834 I saw the present crisis. I in vain raised a warning voice, and endeavored to avert it. I now see, with equal certainty, one far more portentous. If this struggle is to go on—if the banks will insist upon a reunion with the Government against the sense of a

large and influential portion of the community—and, above all, if they should succeed in effecting it, a reflux flood will inevitably sweep away the whole system. A deep popular excitement is never without some reason, and ought ever to be treated with respect; and it is the part of wisdom to look timely into the cause, and correct it before the excitement shall become so great as to demolish the object, with all its good and evil, against which it is directed.

The only safe course for both Government and banks is to remain, as they are, separated —each in the use of their own credit, and in the management of their own affairs. The less the control and the influence of the one over the other, the better. Confined to their legitimate sphere —that of affording temporary credit to commercial and business men, bank-notes would furnish a safe and convenient circulation in the range of commerce and business within which the banks may be respectively situated, exempt almost entirely from those fluctuations and convulsions to which they are now so exposed; or, if they should occasionally be subject to them, the evil would be local and temporary, leaving undisturbed the action of the Government, and the general currency of the country, on the stability of which the prosperity and safety of the community so much depend.

I have now stated my objections to the reunion of the Government and the banks. If they are well founded; if the State banks are of themselves incompetent agents; if a Bank of the United States be impracticable, or, if practicable, would, at this time, be the destruction of a large portion of the existing banks, and of renewed and severe pecuniary distress; if it would be against the settled conviction of an old and powerful party, whose opposition time cannot abate; if the union of Government and banks add to the unfitness of their notes for circulation, and be unjust and unequal between citizen and citizen, and one portion of the Union and another; and, finally, if it would excite an implacable and obstinate war, which could only terminate in the overthrow of the banking system or the institutions of the country, it then remains that the only alternative would be permanently to separate the two, and to reorganize the Treasury so as to enable it to perform those duties which have heretofore been performed by the banks as its fiscal agents. This proposed reorganization has been called a sub-treasury—an unfortunate word, calculated to mislead and conjure up difficulties and dangers that do not really exist. So far from an experiment, or some new device, it is only returning to the old mode of collecting and disbursing public money, which, for thousands of years, has been the practice of all enlightened people till within the last century.

If there can be any scheme more fatal than a reunion with the banks at this time, it would be such a project. Nor will I give my assent to any arrangement which shall add the least unnecessary patronage. I am the sworn foe to patronage, and have done as much and suffered as much in resisting it as any one. Too many years have passed over me to change, at this late day, my course or principles. But I will say, that it is impossible so to organize the Treasury for the performance of its own functions as to give to the Executive a tenth part of the patronage it will lose by the proposed

separation, which, when the bill for the reorganization comes up, I may have an opportunity to show. I have ventured this assertion after much reflection, and with entire confidence in its correctness. But something more must be done besides the reorganization of the Treasury. Under the resolution of 1816, bank-notes would again be received in the dues of the Government, if the banks should resume specie payments. The legal as well as the actual connexion must be severed. But I am opposed to all harsh or precipitate measures. No great process can be effected without a shock, but through the agency of time. I accordingly propose to allow time for the final separation; and, with this view, I have drawn up an amendment to this bill, which I shall offer at the proper time, to modify the resolution of 1816, by providing that after the 1st of January next, three-fourths of all sums due to the Government may be received in the notes of specie-paying banks; and after the 1st of January next following, one-half; and after the 1st of January next subsequent, one-fourth; and after the 1st of January thereafter, nothing but the legal currency of the United States, or bills, notes, or paper issued under their authority, and which may by law be authorized to be received in their dues. If the time is not thought to be ample, I am perfectly disposed to extend it. The period is of little importance in my eyes, so that the object be effected.

In addition to this, it seems to me that some measure of a remedial character, connected with the currency, ought to be adopted, to ease off the pressure while the process is going through. It is desirable that the Government should make as few and small demands on the specie market as possible during the time, so as to throw no impediment in the way of the resumption of specie payments. With this view, I am of the impression that the sum necessary for the present wants of the Treasury should be raised by a paper, which should at the same time have the requisite qualities to enable it to perform the functions of a paper circulation. Under this impression, I object to the interest to be allowed on the Treasury notes which this bill authorizes to be issued, on the very opposite ground that the Senator from Massachusetts bestows his opposition [sic; approbation]. He approves of interest, because it would throw them out of circulation into the hands of capitalists, as a convenient and safe investment; and I disapprove, because it will have that effect. I am disposed to ease off the process; he, I would suppose, is very little solicitous on that point.

But I go farther. I am of the impression, to make this great measure successful, and secure it against reaction, that some stable and safe medium of circulation, to take the place of bank-notes in the fiscal operations of the Government, ought to be issued. I intend to propose nothing. It would be impossible, with so great a weight of opposition, to pass any measure without the entire support of the administration; and, if it were possible, it ought not to be attempted where so much must depend on the mode of execution. The best measure that could be devised might fail, and impose a heavy responsibility on its author, unless it met with the hearty approbation of those who are to execute it. I, then, intend merely to throw out suggestions, in order to excite the reflection of others on a subject so delicate, and

of so much importance—acting on the principle that it is the duty of all, in so great a juncture, to present their views without reserve.

It is, then, my impression, that, in the present condition of the world, a paper currency, in some form, if not necessary, is almost indispensable in financial and commercial operations of civilized and extensive communities. In many respects it has a vast superiority over a metallic currency, especially in great and extended transactions, by its greater cheapness, lightness, and the facility of determining the amount. The great desideratum is, to ascertain what description of paper has the requisite qualities of being free from fluctuation in value, and liability to abuse, in the greatest perfection. I have shown, I trust, that the bank-notes do not possess these requisites in a degree sufficiently high for this purpose. I go farther. It appears to me, after bestowing the best reflection I can give the subject, that no convertible paper—that is, no paper whose credit rests upon a promise to pay—is suitable for currency. It is the form of credit proper in private transactions between man and man, but not for a standard of value, to perform exchanges generally, which constitute the appropriate functions of money or currency. The measures of safety in the two cases are wholly different. A promissory note, or convertible paper, is considered safe so long as the drawer has ample means to meet his engagements; and, in passing from hand to hand, regard is had only to his ability and willingness to pay. Very different is the case in currency.

On what, then, ought a paper currency to rest ? I would say on demand and supply simply, which regulates the value of every thing else—the constant demand which the Government has on the community for its necessary supplies. A medium resting on this demand, which simply obligates the Government to receive it in all of its dues, to the exclusion of every thing else except gold and silver, and which shall be optional with those who have demands on Government to receive or not, would, it seems to me, be as stable in its value as those metals themselves, and be as little liable to abuse as the power of coining. It would contain within itself a self-regulating power. It could only be issued to those who had claims on the Government, and to those only with their consent, and, of course, only at or above par with gold and silver, which would be its habitual state; for, so far as the Government was concerned, it would be equal in every respect, to gold and silver, and superior in many, particularly in regulating the distant exchanges of the country. Should, however, a demand for gold and silver from abroad, or other accidental causes, depress it temporarily, as compared with the precious metals, it would then return to the Treasury; and as it could not be paid out during such depression, its gradual diminution in the market would soon restore it to an equality, when it would again flow out into the general circulation. Thus there would be a constant alternate flux and reflux into and from the Treasury, between it and the precious metals; but, if at any time a permanent depression in its value be possible from any cause, the only effect would be to operate as a reduction of taxes on the community, and the only sufferer would be the Government itself. Against this its own interest would be a sufficient guaranty.

Nothing but experience can determine what amount and of what denominations might be safely issued; but it may be safely assumed that the country would absorb an amount greatly exceeding its annual income. Much of its exchanges, which amount to a vast sum, as well as its banking business, would revolve about it, and many millions would thus be kept in circulation beyond the demands of the Government. It may throw some light on this subject to state that North Carolina, just after the Revolution, issued a large amount of paper, which was made receivable in dues to her. It was also made a legal tender, but which, of course, was not obligatory after the adoption of the federal constitution. A large amount—say between four and five hundred thousand dollars—remained in circulation after that period, and continued to circulate for more than twenty years, at par with gold and silver during the whole time, with no other advantage than being received in the revenue of the State, which was much less than $100,000 per annum. I speak on the information of citizens of that State, on whom I can rely.

But, whatever may be the amount that can be circulated, I hold it clear that, to that amount, it would be as stable in value as gold and silver itself, provided the Government be bound to receive it exclusively with those metals in all its dues, and that it be left perfectly optional with those who have claims on the Government to receive it or not. It will also be a necessary condition that notes of too small a denomination should not be issued, so that the Treasury shall have ample means to meet all demands, either in gold or silver, or the bills of the Government, at the option of those who have claims on it. With these conditions, no further variation could take place between it and gold and silver than that which would be caused by the action of commerce. An unusual demand from abroad for the metals would, of course, raise them a little in their relative value, and depress relatively the Government bills in the same proportion, which would cause them to flow into the Treasury, and gold and silver to flow out; while, on the contrary, an increased demand for the bills in the domestic exchange would have the reverse effect, causing, as I have stated, an alternate flux and reflux into the Treasury, between the two, which would at all times keep their relative values either at or near par.

No one can doubt that the fact of the Government receiving and paying away bank-notes in all its fiscal transactions is one of the principal sources of their great circulation; and it was mainly on that account that the notes of the late Bank of the United States so freely circulated all over the Union. I would ask, then, why should the Government mingle its credit with that of private corporations ? No one can doubt but that the Government credit is better than that of any bank—more stable and more safe. Why, then, should it mix it up with the less perfect credit of those institutions ? Why not use its own credit to the amount of its own transactions ? Why should it not be safe in its own hands, while it shall be considered safe in the hands of 800 private institutions scattered all over the country, and which have no other object but their own private profits, to increase which they almost constantly extend their business to the most dangerous extremes ?

And why should the community be compelled to give six per cent. discount for the Government credit blended with that of the banks, when the superior credit of the Government could be furnished separately, without discount, to the mutual advantage of the Government and the community ? Why, let me ask, should the Government be exposed to such difficulties as the present, by mingling its credit with the banks, when it could be exempt from all such, by using by itself its own safe credit ? It is time the community, which has so deep an interest in a sound and cheap currency, and the equality of the laws between one portion of the citizens of the country and another, should reflect seriously on these things—not for the purpose of oppressing any interest, but to correct gradually disorders of a dangerous character, which have insensibly, in the long course of years, without being perceived by any one, crept into the state.

The question is, not between credit and no credit, as some would have us believe; but in what form credit can best perform the functions of a sound and safe currency. On this important point I have freely thrown out my ideas, leaving it to this body and the public to determine what they are worth. Believing that there might be a sound and safe paper currency founded on the credit of Government exclusively, I was desirous that those who are responsible and have the power should have availed themselves of the opportunity of a temporary deficit of the Treasury, and the postponement of the fourth instalment intended to be deposited with the States, to use them as the means of affording a circulation for the present relief of the country and the banks, during the process of separating them from Government; and, if experience should justify it, of furnishing a permanent and safe circulation, which would greatly facilitate the operations of the Treasury, and afford, incidentally, much facility to the commercial operations of the country. But a different direction was given; and when the alternative was presented, of a loan, or the withholding of the fourth instalment from the States, I did not hesitate to give a decided vote for withholding it. My aversion to a public debt is deep and durable. It is, in my opinion, pernicious, and is little short of a fraud on the public. I saw too much of it during the late war [of 1812] not to understand something of the nature and character of public loans. Never was a country more egregiously imposed on.

We have, Mr. President, arrived at a remarkable era in our political history. The days of legislative and executive encroachments, of tariffs and surpluses, of bank and public debt, and extravagant expenditure, are past for the present. The Government stands in a position disentangled from the past, and freer to choose its future course than it ever has been since its commencement. We are about to take a fresh start. I move off under the State rights banner, and go in the direction in which I have been so long moving. I seize the opportunity thoroughly to reform the Government; to bring it back to its original principles; to retrench and economize, and rigidly to enforce accountability. I shall oppose strenuously all attempts to originate a new debt; to create a national bank; to reunite the political and money power—more dangerous than that of church and state—in any form or shape; to prevent the disturbances of the compromise, which is gradually

removing the last vestige of the tariff system; and, mainly, I shall use my best efforts to give an ascendency to the great conservative principle of State sovereignty, over the dangerous and despotic doctrine of consolidation. I rejoice to think that the Executive department of the Government is now so reduced in power and means, that it can no longer rely on its influence and patronage to secure a majority. Henceforward it can have no hope of supporting itself but on wisdom, moderation, patriotism, and devoted attachment to the constitution, which I trust will make it, in its own defence, an ally in effecting the reform which I deem indispensable to the salvation of the country and its institutions.

I look, sir, with pride to the wise and noble bearing of the little State-rights party, of which it is my pride to be a member, throughout the eventful period through which the country has passed since 1824. Experience already bears testimony to their patriotism, firmness, and sagacity; and history will do it justice. In that year, as I have stated, the tariff system triumphed in the councils of the nation. We saw its disastrous political bearings; foresaw its surpluses and the extravagances to which it would lead. We rallied on the election of the late President [Jackson] to arrest it, through the influence of the Executive department of the Government. In this we failed. We then fell back on the rights and sovereignty of the States, and by the action of a small but gallant State, and through the potency of its interposition, we brought the system to the ground, sustained as it was by the opposition and the administration, and by the whole power and patronage of the Government. The pernicious overflow of the Treasury, of which it was the parent, could not be arrested at once. The surplus was seized on by the Executive, and, by its control over the banks, became the fruitful source of Executive influence and encroachment. Without hesitation, we joined our old opponents on the tariff question, but under our own flag, and without merging in their ranks, and made a gallant and successful war against the encroachments of the Executive. That terminated, we part with our late allies in peace; and move forward, lag, or onward who may, to secure the fruits of our long but successful struggle, under the old republican flag of 1798, which, though tattered and torn, has never yet been lowered, and, with the blessing of God, never shall be with my consent.

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A bit more from Senator Calhoun's address of October 3, 1837:—

I begin with that which is first pushed forward, and seems to be most relied on—one currency for the Government and another for the people. Is it meant that the Government must take in payment of its debts whatever the people take in payment of theirs ? If so, it is a very broad proposition, and would lead to important consequences. The people now receive the notes of non-specie-paying banks. Is it meant that the Government should also receive them ? They receive in change all sorts of paper, issued by we know not whom. Must the Government also receive them ? They receive the notes of banks issuing notes under five, ten, and twenty dollars. Is it

intended that the Government shall also permanently receive them ? They receive bills of exchange. Shall Government, too, receive them ? If not, I ask the reason. Is it because they are not suitable for a sound, stable, and uniform currency ? The reason is good, but what becomes of the principle that the Government ought to take whatever the people take ? But I go further: it is the duty of Government to receive nothing in its dues but which it has the right to render uniform and stable in its value. We are by the constitution made the guardian of the money of the country. For this the right of coining and regulating the value of coins was given, and we have no right whatever to receive or treat any thing as money, or the equivalent of money, the value of which we have no right to regulate. If this principle be true, and it cannot be controverted, I ask what right has Congress to receive and treat the notes of the State banks as money ? If the States have the right to incorporate banks, what right has Congress to regulate them or their issues ? Show me the power in the constitution. If the right be admitted, what are its limitations, and how can the right of subjecting them to a bankrupt law in that case be denied ? If one be admitted, the other follows as a consequence; and yet those who are most indignant against the proposition of subjecting the State banks to a bankrupt law, are the most clamorous to receive their notes, not seeing that the one involves the right of the other. I am equally opposed to both as unconstitutional and inexpedient. We are next told, to separate from the banks is to separate from the people. The banks, then, are the people, and the people the banks—united, identified, and inseparable; and as the Government belongs to the people, it follows, of course, according to this argument, it belongs also to the banks, and of course is bound to do their biddings. I feel on so grave a subject, and in so grave a body, an almost invincible repugnance in replying to such arguments; and I shall hasten over the remaining one of the fraternity, which I shall condescend to notice with all possible despatch. They have no right of admission here; and, if I were disposed to jest on so solemn an occasion, I should say they ought to be driven from this chamber, under the 47th rule [which regulates admission to the chamber of the Senate]. The next of these formidable objections to the separation from the banks is, that the Government, in so doing, takes care of itself, and not of the people. Why, I had supposed that the Government belonged to the people; that it was created by them for their own use, to promote their interest, and secure their peace and liberty; that, in taking care of itself, it takes the most effectual care of the people; and, in refusing all embarrassing, entangling, and dangerous alliances with corporations of any description, it was but obeying the great law of self-preservation. But enough; I cannot any longer waste words on such objections. I intend no disrespect to those who have urged them; yet these, and arguments like these, are mainly relied on to countervail the many and formidable objections, drawn from the highest considerations that can influence the action of Government or individuals, none of which have been refuted, and many not even denied.

The Senator from Massachusetts (Mr. Daniel Webster) [in his speech on 9/28] urged an argument of a very different character, but which, in my

opinion, he entirely failed to establish. He asserted that the ground assumed on this side was an entire abandonment of a great constitutional function conferred by the constitution on Congress. To establish this, he laid down the proposition, that Congress was bound to take care of the money of the country. Agreed: and with this view the constitution confers on us the right of coining and regulating the value of coins, in order to supply the country with money of proper standard and value; and is it an abandonment of this right, to take care, as this bill does, that it shall not be expelled from circulation, as far as the fiscal action of this Government extends ? But, having taken this unquestionable position, the Senator passed (by what means he did not condescend to explain,) from taking care of the money of the country to the right of establishing a currency, and then to the right of establishing a bank currency, as I understood him. On both of these points, I leave him in the hands of the Senator from Pennsylvania, (Mr. James Buchanan,) who, in an able and constitutional argument, completely demolished, in my judgment, the position assumed by the Senator from Massachusetts. I rejoice to hear such an argument from such a quarter. The return of the great State of Pennsylvania to the doctrines of rigid construction and State rights, sheds a ray of light on the thick darkness which has long surrounded us.

But we are told that there is not gold and silver enough to fill the channels of circulation, and that prices would fall. Be it so. What is that compared to the dangers which menace on the opposite side ? But are we so certain that there is not a sufficiency of the precious metals for the purpose of circulation ? Look at France, with her abundant supply, with her channels of circulation full to overflowing with coins, and her flourishing industry. It is true that our supply is insufficient at present. How could it be otherwise ? The banking system has degraded and expelled the metals, driven them to foreign lands, closed the mines, and converted their products into costly vases, and splendid utensils and ornaments, administering to the pride and luxury of the opulent, instead of being employed as the standard of value, and the instrument of making exchanges as they were manifestly intended mainly to be by an all-wise Providence. Restore them to their proper functions, and they will return from their banishment; the mines will again be opened; and the gorgeous splendor of wealth will again reassume the more humble, but useful, form of coins.

But, Mr. President, I am not driven to such alternatives. I am not the enemy, but the friend of credit—not as the substitute, but the associate and the assistant of the metals. In that capacity, I hold credit to possess, in many respects, a vast superiority over the metals themselves. I object to it in the form which it has assumed in the banking system, for reasons that are neither light nor few, and that neither have been nor can be answered. The question is not whether credit can be dispensed with, but what is its best possible form—the most stable, the least liable to abuse, and the most convenient and cheap ? I threw out some ideas on this important subject in my opening remarks. I have heard nothing to change my opinion. I believe that Government credit, in the form I suggested, combines all the requisite

qualities of a credit circulation in the highest degree; and also that Government ought not to use any other credit but its own in its financial operations. When the Senator from Massachusetts made his attack on my suggestions, I was disappointed. I expected argument, and he gave us denunciation. It is often easy to denounce, when it is hard to refute; and when that Senator gives denunciations, instead of arguments, I conclude that it is because the one is plenty, and the other scarce.

We are told the form I suggested is but a repetition of the old continental money—a ghost that is ever conjured up by all who wish to give the banks an exclusive monopoly of Government credit. The assertion is not true; there is not the least analogy between them. The one was a promise to pay when there was no revenue; and the other a promise to receive in the dues of Government when there is an abundant revenue.

We are also told that there is no instance of a Government paper that did not depreciate. In reply, I affirm that there is none, assuming the form I propose, that ever did depreciate. Whenever a paper receivable in the dues of Government had any thing like a fair trial, it has succeeded. Instance the case of North Carolina, referred to in my opening remarks [of this session on 9/18]. The drafts of the Treasury at this moment, with all their incumbrance, are nearly at par with gold and silver; and I might add the instance alluded to by the distinguished Senator from Kentucky [Henry Clay], in which he admits that, as soon as the excess of the issues of the Commonwealth Bank of Kentucky were reduced to the proper point, its notes rose to par. The case of Russia might also be mentioned. In 1827 she had a fixed paper circulation, in the form of bank notes, but which were inconvertible, of upwards of $120,000,000, estimated in the metallic ruble, and which had for years remained without fluctuation, having nothing to sustain it, but that it was received in the dues of the Government, and that, too, with a revenue of only about $90,000,000 annually. I speak on the authority of a respectable traveller. Other instances, no doubt, might be added; but it needs no such support. How can a paper depreciate which the Government is bound to receive in all payments to it, and while those to whom payments are to be made are under no obligation to receive it ? From its nature, it can only circulate when at par with gold and silver; and if it should depreciate, none could be injured but the Government.

But my colleague [William C. Preston] objects that it would partake of the increase and decrease of the revenue, and would be subject to greater expansions and contractions than bank notes themselves. He assumes that Government would increase the amount with the increase of the revenue, which is not probable, for the aid of its credit would then be least needed; but if it did, what would be the effect ? On the decrease of the revenue, its bills would be returned to the Treasury, from which, for the want of demand, they could not be re-issued; and the excess, instead of hanging on the circulation, as in the case of bank notes, and exposing it to catastrophes like the present, would be gradually and silently withdrawn, without shock or injury to any one. It has another and striking advantage over bank circulation, in its superior cheapness as well as greater stability and safety. Bank

paper is cheap to those who make it, but dear, very dear, to those who use it, fully as much so as gold and silver. It is the little cost of its manufacture, and the dear rates at which it is furnished to the community, which gives [sic] the great profit to those who have a monopoly of the article. Some idea may be formed of the extent of the profit, by the splendid palaces which we see under the name of banking houses, and the vast fortunes which have been accumulated in this branch of business; all of which must ultimately be derived from the productive powers of the community, and of course adds so much to the cost of production. On the other hand, the credit of Government, while it would greatly facilitate its financial operations, would cost nothing, or next to nothing, both to it and the people, and of course would add nothing to the cost of production, which would give every branch of our industry, agriculture, commerce, and manufactures, as far as its circulation might extend, great advantages both at home and abroad.

But there remains another and great advantage. In the event of war, it would open almost unbounded resources to carry it on, without the necessity of resorting to what I am almost disposed to call a fraud—public loans. I have already shown that the loans of the Bank of England to the Government were very little more than loaning back to the Government its own credit; and this is more or less true of all loans, where the banking system prevails. It was pre-eminently so in our late war. The circulation of the Government credit, in the shape of bills receivable exclusively with gold and silver in its dues, and the sales of public lands, would dispense with the necessity of loans, by increasing its bills with the increase of taxes. The increase of taxes, and, of course, of revenue and expenditures, would be followed by an increased demand for Government bills, while the latter would furnish the means of paying the taxes, without increasing, in the same degree, the pressure on the community. This, with a judicious system of funding, at a low rate of interest, would go far to exempt the Government from the necessity of contracting public loans, in the event of war. I am not, Mr. President, ignorant, in making these suggestions, (I wish them to be considered only in that light,) to what violent opposition every measure of the kind must be exposed. Banks have been so long in the possession of Government credit, that they very naturally conclude they have an exclusive right to it, and consider the withdrawal of it, even for the use of the Government itself, as a positive injury. I have some experience on this subject. It was my fortune to take a stand on the side of the Government against the banks during the most trying period of the late war—the winter of 1814 and 1815—and never in my life was I exposed to more calumny and abuse—no, not even on this occasion. It was my first lesson on the subject. I shall never forget it. I propose to give a very brief narrative of the scenes through which I then passed; not with any feeling of egotism, for I trust I am incapable of that, but to illustrate the truth of much I have said, and to snatch from oblivion not an unimportant portion of our financial history. I see the Senators from Massachusetts, (Mr. Webster,) and from Alabama, (Mr. William R. King,) who were then members of the House of Representatives [from N.H.

and N.C.], in their places, and they can vouch for the correctness of my narrative, as far as the memory of transactions so long passed will serve.

The finances of the country had at that time fallen into great confusion. Mr. [George W.] Campbell had retired from the head of the Treasury, and the late Mr. [Alexander J.] Dallas had succeeded—a man of talents, bold and decisive, but inexperienced in the affairs of the Department. His first measure to restore order, and to furnish the supplies to carry on the war, was to recommend a bank of $50,000,000, to be constituted almost exclusively of the new stocks which had been issued during the war, to the exclusion of the old, which had been issued before. The proposed bank was authorized to make loans to the Government, and was not bound to pay specie during the war, and for three years after its termination.

It so happened that I did not arrive here till some time after the commencement of the session [of 9/19/1814—3/3/1815], having been detained by an attack of bilious fever. I had taken a prominent part in the declaration of the war, and had every motive and disposition to sustain the administration, and to vote every aid to carry on the war. Immediately after my arrival, I had a full conversation with Mr. Dallas, at his request. I entertained very kind feelings towards him, and assured him, after he had explained his plan, that I would give it my early and favorable attention. At that time I had reflected but little on the subject of banking. Many of my political friends expressed a desire that I should take a prominent part in favor of the proposed bank. Their extreme anxiety aroused my attention, and, being on no committee (they had been appointed before my arrival,) I took up the subject for a full investigation, with every disposition to give it my support. I had not proceeded far before I was struck with the extraordinary character of the subject; a bank of $50,000,000, whose capital was to consist almost exclusively of Government credit in the shape of stock, and not bound to pay its debts during the war and for three years afterwards, to furnish the Government with loans to carry on the war ! I saw at once that the effect of the arrangement would be, that the Government would borrow back its own credit, and pay six per cent. per annum for what they had already paid eight or nine. It was impossible for me to give it my support under any pressure, however great. I felt the difficulty of my situation, not only in opposing the leading measure of the administration at such a crisis, but, what was far more responsible, to suggest one of my own, that would afford relief to the embarrassed Treasury. I cast my eyes around, and soon saw that the Government should use its own credit directly, without the intervention of a bank; which I proposed to do in the form of Treasury notes, to be issued in the operations of the Government, and to be funded in the subscription to the stock of the bank. Treasury notes were, at that time, below par, even with bank paper. The opposition to them was so great on the part of the banks, that they refused to receive them on deposite, or payment at par with their notes; while the Government, on its part, received and paid away notes of the banks at par with its own. Such was the influence of the banks, and to such degradation did the Government, in its weakness, submit.

chapter IV.

John Law's Paper Money Scheme.

Law's History — His Financial Project Rejected by the English Parliament — Its Defects — His Career in France—State of French Finances under the Regent — Law's Scheme Favorably Received — His Establishment of a Bank — It is Converted into a Government Bank — The Bank Organizes the Mississippi Scheme — Its Charter —The Bank Assumes Control of all the Foreign Commerce and Internal Revenues of France — Fabulous Rise of the Shares of the Bank — Consequent Withdrawal of Gold from the Bank — Alarm Created thereby — The Regent's Foolish Measure to Arrest that Withdrawal — The Alarm Increases — The Bank Collapses — Criticism of the Scheme.

Why did the paper-money scheme of John Law prove to be a failure, having discovered, as he had, the fundamental principle of the system of absolute money, namely, that every government should issue its own money in paper currency ? It was because he fell into the same logical contradiction, which has proved to be the *pons asinorum* of all those of our modern American and English financiers, who, while they recognize the right of a nation to issue paper money under certain restrictions, ignore its other fundamental principle —without which the former is not only worthless, but positively destructive— namely, that it must be made irredeemable in coin, though convertible into all the annual products and commodities of the nation, and the exclusive legal-tender money of the country; and that it must be issued in lieu of interest-bearing bonds, and under such statistical reports and regulations that no excess of circulation, beyond the wants of trade, commerce and manufactures, shall be possible.

Another essential cause of the failure of his scheme, was that he did not observe the necessity of separating the money issue system of the government of France from the discount operations of the Bank of France — whereas, under my system, the national government issue would have absolutely nothing to do with discount operations, or, indeed, with banking operations of any kind.

Nevertheless, and in spite of his failure, John Law is justly regarded as one of the most profound thinkers of his age, in that he originated the first fundamental principle of this proposed system of absolute money. His early education as the son of one of those goldsmith bankers, elsewhere alluded to, who at that time conducted all the credit or money of account business of Great Britain, and the peculiar tendency of his mind, which led him to undertake at an early age a thorough study of the highest branches of mathematics, naturally qualified him to make the financial discovery, which he first made public in 1701, when he published his "Proposals and Reasons for Establishing a Council of Trade," but which he developed more elaborately in his work "Money and Trade Considered, with a Proposal for Supplying the Nation with Money," published some four years later. The mere title of this work shows how clearly John Law comprehended the financial problem, that was then before the world: to supply money enough for the transaction of the enormous commercial and industrial activities, to which that time had given rise. Leibnitz and Newton had not many years before

solved the great problem of the world of nature by the invention of the Differential Calculus; John Law, thoroughly conversant with the principle on which their immortal discovery rested, and capable of applying it to a certain extent practically in the world of finance, invented the system of national paper money, although he failed to provide for it the necessary limitations to preserve its absolute value and permanent usefulness.

His original proposition, as submitted to the British government, was to this effect: That government was to issue notes, through a Board of Commissioners appointed for the purpose, to an indefinite amount, as they might be desired by borrowers, who were to deposit as security for the notes, either lands, or land pledges.

This, it will be seen, is exactly the scheme which is now-a-days proposed to the American people by those of our American financiers who advocate the issue of 3.65 interest-bearing bonds, interconvertible into currency, which is to be issued by the government on the security of such bonds; the bonds to serve as a substitute for a coin basis, though encumbered with the payment of coupons for a semi-annual interest.

The whole court party, headed by the Duke of Argyle and the Marquis of Tweeddale, supported Law's scheme, but it was rejected by Parliament on the ground, that "to establish any kind of credit so as to oblige it to pass (as current money), was an improper expedient for the nation." The truth was, that Parliament stood in fear lest this scheme should make all the estates of the kingdom dependent upon the government. From a political point of view, this was undoubtedly a very serious objection, since it would place a very dangerous power in the hands of the government; but the great financial objection to this scheme of John Law's was that the amount of money in circulation could never be known under its operation. No limitations were provided against excessive issues, and the people as well as the banks of discount were thus left without any means to regulate their financial transactions upon a known and permanent basis. This uncertainty was still further increased by the fact, that his proposed money, although claiming to be fully "secured" by mortgages on lands, nevertheless professed to be also redeemable in gold, since this pretended redeemability might at any moment throw the nation in bankruptcy, if a sudden demand for specie should arise.

Having left England, Law, in course of time, 1714, took up his quarters in France. He went to Paris, where he soon became a most intimate friend of the Regent, the Duke of Orleans. Here his scheme of a vast issue of national money met a gracious reception. The wars and the extravagance of the reign of Louis XIV. had burthened the French nation with an immense load of debt, the interest on which necessitated a most oppressive taxation. The national interest account was, indeed, so large, that after its settlement every year there was not money enough left in the Treasury to carry on the ordinary operations of the civil government. Things had come to such a pass, indeed, that national bankruptcy, or, in other words, suspension of payment of interest, was seriously considered by the government, and that the out standing Government warrants, or certificates of indebted-

ness, had fallen from forty to fifty per cent. Something had to be done, and that speedily. Law at once declared himself ready and able to afford the necessary relief, and that not only without any expense, but at an actual profit to the government. He then unfolded his scheme, which was substantially the same as that previously submitted to the British government. The French nation was to constitute itself into a Banking Corporation, and to issue paper money redeemable in coin, for the purpose of loaning it out upon lands and other securities at a reasonable rate of interest. His argument was substantially this:

No nation has gold and silver money enough wherewith to carry on its business. The general desire, therefore, is to have more money. It is true that a farmer may issue a mortgage for five thousand dollars on his property; but how can he pay with that a hundred or two hundred dollars of small debts ? To do this he needs an intermediate agency —coins or a paper currency. The national government should create this medium. It should have the exclusive power to issue paper money —making it receivable for taxes, duties and all demands of the government, and thus, at least, in part, a legal tender— and should loan this money out to the farmer at a fixed rate of interest, taking a mortgage as security. The people, of course, would look upon national bank notes, so secured, and made partially legal tender, as equal to coin, and in many respects superior, because handier. These notes would, therefore, serve the government itself to pay its own debts quite as well as gold and silver —and practically serve all the purposes, indeed, of coins. This money would bring in the government a liberal interest. If we assume the rate of interest to have been fixed at five per cent., the bank would net, on an issue of 1,000,000,000 livres the enormous profit of 50,000,000 livres per annum, or about $10,000,000; a clear profit for furnishing the people with a circulating medium. As the mortgages would be considered ample security for the whole issue, there would be very little demand for gold and silver; and hence the Bank would not be compelled to keep a large amount of specie on hand. Still some specie must be held always in the vaults of the bank to redeem the paper money; and it was on this rock that John Law's ship of finance finally wrecked.

At first, Law's national money scheme was rejected by the French government. He then applied for and obtained a charter for a private bank, organized upon the same principle of an authorization to issue notes, or currency, upon land and other securities.

The scheme proved so successful, and Law's bank made such enormous profits out of its privileges, that, in a short time after it had gone into operation, the Regent reconsidered his determination, and, taking away from John Law his charter, inaugurated his bank as a national government bank, called the Royal Bank. It became, therefore, a bank of issue and of discount, with a double basis of coin and of land mortgages. Law, however, retained control of it under the name of Director-General, and now began to develop the scheme more fully, as it afterwards became known under the name of the "Mississippi Scheme" —very improper title, however, consid-

ering that the Louisiana land speculation was but a minor part of the project. The leading points of this scheme were as follows:

National governments, instead of issuing bonds for the money needed by them, and paying interest on those bonds, ought to issue the money itself, and receive interest by lending it out. To substantiate this proposition he pointed to the fact, that the richest nation in the world had not, and could not have specie enough for the use of its inhabitants; and to the other fact, that specie-money was liable to constant deterioration from its very character as a perishable commodity.

But, secondly, Law held, that he must make these national bank notes "secure" by pledging another kind of national issue for their redemption in specie, and making the people believe that such a pledge would guarantee that redemption. In other words: one sort of government securities was to be deposited as security for another kind of government obligations; precisely as we deposit government bonds to secure National Bank greenbacks; and this pretended security was to give general circulation to the currency.

It is likely enough, that Law really believed such a roundabout way of issuing bank-notes necessary to make his scheme acceptable to the public, and that the people of France were not ripe at that time to adopt a system of pure, irredeemable, or interconvertible national bank-notes, based on the annual products and the credit of France. To obtain such a collateral security, Law incorporated the bank also into a Joint Stock Foreign Trading Company, under the name of the Company of the West, to which the French government granted the whole province of Louisiana, of the wealth whereof fabulous stories were then set in circulation. The company issued 200,000 shares of 500 livres each, subscriptions to which could be paid in treasury warrants (*billets d'etat*) of the French government.

And here the absurdity of human nature in its financial operations, and its strange predilection in favor of indirect transactions in business, was strikingly exhibited. While the French government, as such, owned Louisiana, French treasury warrants (billets d'etat) were at a discount of 20 per cent. — a drug in the market. But when the French government, as a mere company, owned Louisiana, and issued shares for it, those shares were not only immediately taken at par, but soon after rose to fabulous premiums. The people were absolutely frantic to exchange their government treasury notes, though backed by the whole power and sovereignty of the French nation, and the real estate mortgages of French subjects, for the shares of a mere company organized by the French government. Were the latter more secure ? On the contrary, infinitely less. But they promised to pay dividends, and were susceptible to fluctuations; hence good subjects for speculation and stock-gambling. This is the permanent vice of all money systems based on bonds, mortgages or coin.

Encouraged by the success of the Louisiana scheme, John Law acquired from the French government the charter and effects of the Senegal Company, and soon after the exclusive privilege of trading to the East Indies, China, and the South Seas, together with all the possessions and

effects of the China and India Companies, whereupon the Company of the West (Mississippi Bubble), changed its title to that of "Company of the Indies," and issued 50,000 new shares, all of which were again immediately subscribed. He next absorbed in the company all the, privileges of the Mint, which he purchased at the price of 50,000,000 livres; and finally, on the 27th of August, 1719, all the great landed estates of the French government —on which he advanced 3,500,000 livres— and the general receipts or collection of all the other branches of the king's revenue. He had thus possessed himself of the prominent franchises and sovereignties of the kingdom of France, in violation of all the principles of national economy and independence.

Law's scheme had now reached its highest point of development. The Royal Bank had been able to issue and force into circulation bank-notes to the extent of 2,600,000,000 of livres, or about $500,000,000; and this immense issue was kept current, partly by making it receivable for the shares of the company, and partly by constituting it a legal tender for taxes and duties. Besides, was it not secured indirectly by the shares of the great company —shares, the value of which had risen, within a few months, from five hundred to ten thousand livres. And had not Law declared, in November, 1719, that the company would be able to pay annual dividends of two hundred livres on every share ?

But it was precisely this extraordinary success and rise in the shares, which worked the downfall of John Law's scheme. Had the French government confined itself to the issue of royal (or national) bank-notes, secured simply by the annual products, commerce, trade and manufactures, and the whole power, wealth and sovereignty of the nation, and bearing no interest, nor purporting to entitle the holder to any dividend, or other redemption than conversion into commodities, a panic or run upon the bank would have been impossible. But when the shares, that were supposed to be the security of the bank-notes of the government, rose in price from 500 to 10,000 livres, it was evident that whatsoever affected the price of the shares must also affect the current value of the bank-notes. The bank notes were, therefore, at no period an absolute money, but a common commodity, subject to constant fluctuation and all the caprices of the Stock Exchange. To break down the paper money scheme, it was only necessary to shake the share system; or to demand specie upon the bank-notes, and Law's enemies did not overlook these great defects in his financial project.

Hints were set afloat, that it were better to make hay while the Sun shone, and as a consequence, the holders of shares began to realize at the enormous advance which had taken place, and to draw their claims out of the Royal Bank in gold and silver coin, which they either hoarded up privately or sent to foreign countries, in anticipation of a general crash. Within one year about five hundred millions of livres were thus drawn from the bank and exported. This laid the foundation for the financial crisis that followed with terrible consequences.

This state of affairs could not be concealed for any length of time. Cardinal Dubois and Mr. d'Argenson, both of whom had grown jealous of

Mr. Laws' influence with the Regent —possibly the Regent himself had grown somewhat envious of Law's successes, which were equally numerous in the female world as in the world of finance— advised the Duke of Orleans of this inordinate exportation of specie, and counselled the most energetic measures for the prevention of the further drain of gold, which they considered, or pretended to consider, an impending disaster and ruin to all France. Their representations were so far successful as to frighten the Regent into the issue of an edict, early in 1720, by which payments in specie were restricted to small sums, and a little later into the issue of another edict, prohibiting all individuals and corporations from having more than five hundred livres of specie in their possession. This of course excited intense alarm in the hearts of the specie worshippers, and the withdrawal of gold and silver increased correspondingly. It also produced a reaction on the temper of the Regent, who now began to fear that the ground was giving way under him, and that Law's scheme was really nothing but a bubble. Instead of boldly maintaining the credit of the scheme, and amending the defects existing in it, he delivered a final and decisive stroke at the public and bank credit of France by another edict, which virtually announced that, as all France held barely 1,300,000,000 of livres in specie, while the currency issued by the Royal Bank alone amounted to double that sum, and could not possibly be paid, therefore, in specie, the value of those notes should be reduced one-half; each livre counting only one-half a livre in legal tender. The same edict for the same reason also reduced the price of the shares of the company one-half; from 10,000 to 5,000 livres per share. The result was, that on the next morning after the issue of this suicidal edict —which Law did his best to prevent— both shares and bank-notes were worth nothing at all, the edicts having operated as a repudiation of both the shares and the notes, upon the same principle that a withdrawal of the bank circulation, whenever there is a drain for gold upon the Bank of England, will, if persisted in, result in a panic and a suspension of specie payments.

chapter V.

A SPECIE BASIS NECESSARILY A DELUSION.

A SPECIE BASIS NECESSARILY A FALSEHOOD, A DELUSION AND AN ABSURDITY PROVED BY LAW'S SCHEME, BY THE FRENCH ASSIGNATS, THE BANK OF ENGLAND NOTES, THE AMERICAN CONTINENTAL MONEY, ETC. — NO BANK CAN PAY ITS OBLIGATIONS IN SPECIE—R.H. PATTERSON — CHARLES SEARS — STEPHEN COLWELL.

I have dwelt thus at some length upon the subject of Law's scheme, in this connection, partly because that extraordinary man deserves some vindication against the general opprobrium cast upon his memory, but chiefly because his system —the first that approximated towards a national money system— exhibits in the strongest light, how every money system, based upon the lie of redeemability in specie, must sooner or later collapse. It further illustrates the impracticability of creating a national money system, upon the plan of allowing the government bank of issue the privilege of dealing with the currency issue as if it were a bank of discount.

There can not be any financial or banking connection between a government treasury having power to issue money for circulation, and government banks of discount. Such a connection will always degenerate into an unlimited issue and discount, that will end in repudiation or bankruptcy.

Every page of the history of finance illustrates these truths. Why did the assignats of the revolutionary republic of France of 1789 fail to represent permanent values ? They also were issued without any of the limitations accompanying the system of independent bank discounts; they also promised to do something which they could not do, to purchase the public lands of France, that could not be purchased because the new government had no title to them.

The same can be said of the continental money issued by Congress during the war of the American Revolution; of the notes of the Bank of England, when it was compelled to suspend "specie payment," and indeed of every money, which is demonstrably unable to fulfil its promises, as well as of our whole present system of money of account, including bank-notes, bonds, checks, drafts and bills of exchange. The whole system is virtually based upon irredeemability in coin, and yet purports to be redeemable in it. There is not a bank in existence that can pay its obligations in coin; not a bank that can pay them off even in such paper money as we now have for legal tender. It is not extravagant to assume that a bank which has taken one million dollars on deposit, has, as a rule, not more than one hundred thousand dollars on hand wherein to meet its obligations.* It is evident that

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* Mr. R.H. Patterson, in his work, *The Economy of Capital* (1865), estimates the amount of gold held by the banks in Great Britain at £20,000,000, of which the Bank of England holds fourteen and a half millions, the Irish banks two millions, and the Scottish banks two and a half millions. The deposits of those banks he estimates at four hundred millions. Hence the banks of Great Britain have only five per cent. of their deposits on hand in gold.

I may add, further, what will seem a paradox to the coin-worshippers, that the wealthier a country gets, the less it cares about the possession of gold and silver. During the five years 1859-1864, England received, according to Mr. Patterson, £140,000,000 of gold. Of this amount it exported £138,000,000, retaining, therefore, only £2,000,000, for home use. California and Australia

the pretense of a specie basis for any kind of money of account is a mere fraud. If such a basis were real every bank of issue must have one million dollars of coin in its vaults for every million of its circulation. But this it can not keep, or where would be the profit in issuing paper money to represent the coin ? Nay, the banks themselves confess, that, at the very utmost, they keep only one-third of the amount of their circulation on hand in specie. Their "promise to pay" is, therefore, an acknowledged lie. But why, then, keep it up, especially as the only good which it does is to keep the money market in constant agitation and make uncertain all business transactions ?

It might be further suggested in this connection, that there is another reason why gold and silver are unfit for the purposes of money. Not only are they merchandize, but a merchandize of great value, although subject to a great deterioration of that value through its mere use; the loss by wear on gold coin circulating as money being about three per cent. per annum. A government coin of twenty dollars will, therefore, after the lapse of a few years, be no longer intrinsically worth twenty dollars, but perhaps only eighteen or fifteen dollars, and as the proposition is, that it must weigh twenty dollars worth of gold in order to be a legal tender for that amount, it has virtually ceased to be a legal tender, by having ceased to be of full weight — and to tell the truth, the people do not really care to have gold money, except when in cases of panics the specie spectre terrifies them and renders them insane for the moment. Were there, indeed, no other reason not to use gold as money, its mere weight and continual loss by use would make it objectionable. The moving of any considerable sum from one place to another would always necessitate a dray or wagon; and who would keep a large sum of coin in his own house ? Gold as a money medium, in short, has long since been dead; it only requires now an official burial and certificate of death.

To show how thoroughly this general insufficiency of a specie basis is understood by some of the ablest writers on the subject of finance, I quote from several of them. Mr. Charles Sears, a prominent political economist, says, in speaking of the inadequacy of a gold and silver money:

"Independently of circumstances, and on its merits, the specie basis hypothesis is the most disorganizing element that ever obtained place in society. .... On this hypothesis our monetary, industrial and commercial systems constitute a huge pyramid or cone, standing on its apex. Forty billions of property resting upon six billions of current production, which rests for its value upon, say, seven hundred millions of currency, which in turn for its value, rests upon two hundred and fifty millions of specie, which, so far as our possession of it is concerned, depends upon the interest and good will of our rivals in industry and haters of our political system.

"Of course, on this system all people in all times have been insolvent. Production and trade have been carried on upon suffrance. So long as confidence continued unim-

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have grown rapidly rich, by what ? Keeping their thousands of millions of dollars of gold at home ? On the contrary —by shipping them off. Only the Eastern and barbarous nations, who make no progress in wealth and prosperity, hoard and accumulate specie; the prosperous nations of the world get rid of it.

The gold and silver mines of the United States have produced since 1848-9 the sum of $1,640,000,000 of gold and silver, and yet, Mr. Secretary Bristow, in his well-arranged report on the finances, of October 1874, p. 21, admits that we have only $166,000,000 of coin in the country. The balance, $1,480,000,000, has been exported to foreign markets.

paired, the movements of property were kept up; but the exigencies of the war, of local trade and of the stock and money speculators, and the natural system itself requiring periodical settlement, demonstrate the general insolvency. Within the last fifty years, say —a money crisis has come quite regularly every ten years. Some thing— any one of a dozen causes, few know what, sets gold flowing out. Fifty millions withdrawn in a short time from their usual places of deposit is quite sufficient to make the whole volume of coin disappear from ordinary circulation as completely as if it had never existed. The metallic basis is gone, slipped out; the pivot of the system is dislocated; somebody wanted it and took it; and the pyramid tumbles down, burying in its ruins three-fourths of a business generation."

And Mr. Colwell says:

"The remedy for these evils" —*i.e.*, the insecurity of bank-notes— which has been most relied on, is that of placing the banks under stringent obligations to pay their currency on demand in specie. This would be a complete remedy, if compliance were possible; but that is not the case— far from it. It involves a stock of the precious metals in the country, equal to the deposits and circulation of the banks, and applicable to this purpose of remaining in the banks, as a security for their issues. Security, absolute security, should be required of the banks; but it is surely an error to assume that the security must be gold or silver." --- *Ways and Means of Payment*, p. 11, 12.

Mr. Patterson, in speaking of the theory, that the amount of currency issued by a bank should always vary in amount as gold varies, illustrates the absurdity of that theory by the following brief statement, which I heartily recommend to the study of those of our American financiers who have expressed a similar notion:

"For many years during the great war with Napoleon, especially from 1808 to 1815, there was hardly a sovereign left in the country. .... At such a time —and it may occur again— the supporters of the 'variation' theory would have left nothing to vary. The gold being 0, the paper currency should also be 0 ! To hold such a doctrine is to bid defiance to common sense." --- *The Economy of Capital*, p. 200.

On page 282 of the same work, he says on the same subject:

"This theory of variation is briefly this: If much gold happens to be brought into the country, the note circulation is likely to be increased to a corresponding extent; if gold is temporarily withdrawn from us, the note circulation also is proportionately diminished. If, owing to a temporary cause, all the gold available for monetary purposes were sent abroad, all our paper money would likewise disappear, and the country be left without money of any kind. A more absurd theory was never propounded. If one kind of money fails us, we are upon no account to use any other. If metallic money fails us, we are upon no account to use any other. This we are told to regard as a masterpiece of economical science; this is the great discovery which our advances in civilization have revealed to us. .... The gospel of monetary science now is, that when a country does not want paper money, it ought to have a great supply of it; and when it does require paper money it shall have none. When a country has enough of specie, it ought to double its currency by issuing an equal amount of bank-notes; and when there is no specie, there should likewise be no notes. Is it necessary to discuss such a theory ? In order to be refuted it only requires to be stated; in order to be rejected, it only needs to be understood. It is a theoretical monstrosity which common sense revolts against, a burlesque of reason, which even the present generation will love to laugh at."

chapter VI.

THE TRUE BASIS OF ABSOLUTE MONEY.

THE TRUE BASIS OF ABSOLUTE MONEY — ITS CHARACTER AS THE ONLY MEDIUM FOR THE INTERCHANGE OF THE COMMODITIES OF A NATION, AND AS THE ONLY LEGAL TENDER — BENJAMIN FRANKLIN — ITS CONVERTIBILITY INTO ALL THE PRODUCTS OF THE NATION, INCLUDING GOLD AND SILVER — IT IS THE ONLY MEDIUM OF INTERCHANGE ADEQUATE FOR OUR GROWING BUSINESS — IT IS ALSO BASED ON THE PUBLIC DEBT OF THE UNITED STATES — IT AFFORDS MORE SECURITY THAN ANY OTHER KIND OF MONEY — GEORGE OPDYKE — CHANCELLOR O.S. HALSTED — MR. R.H. PATTERSON'S OBJECTIONS TO SUCH A NATIONAL MONEY SYSTEM, CRITICISED AND ANSWERED.

So much has been written *pro* and *con* on these two subjects of a specie basis and a bond basis, that I will condense my views on it into two distinct propositions:

I. That the pretence of redemption in gold and silver —whether asserted by a government, or by a municipal or private corporation— is of necessity a delusion and an absurdity.

II. That the holder of an interest-bearing bond —whether issued by a government, or by any municipal or private corporation— is not a whit more "secured" than the holder of a non-interest bearing legal-tender note of the same government or corporation.

Now I propose that both of these bases, specie and bonds, shall be abolished altogether, by making the national treasury of the nation the general bank of issue and causing its exchange or money to be issued upon the only safe and sufficient "basis" conceivable; first for the payment of the national debt, and subsequently upon their own total trade, annual products, power, wealth and sovereignty. The people will support the money that represents their own debts, and the power and wealth of their own country. Their money will not be "a promise to pay," but it will be the medium, and the only medium wherewith to interchange all their commodities and transact all their business.*

This absolute money, therefore, in the nation that issues it, will be redeemable not only in specie —as ordinary bank-notes are, or rather pretend to be, since they never can be so fully redeemed— but will be redeemable, or rather convertible into all the commodities of that nation, into all its products, including gold and silver. No panics, no revulsions in trade can, therefore, affect it; indeed, it will prevent all such panics and revulsions.

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* That this absolute money is not a new or visionary scheme I have already proved, by citing the opinions of Jefferson and Calhoun. I now add what Benjamin Franklin —surely one of the most practical statesmen of all times, and a man of special financial ability— remarks on the same subject, in vol. IV., page 82, of his works, as follows:

"Gold and silver are not intrinsically of equal value with iron. Their value rests chiefly is the estimation they happen to be in, among the generality of nations. Any other well-founded credit is as much an equivalent as gold and silver. Paper money, well founded, has great advantages over gold and silver; being light and convenient for handling large sums; and not likely to have its volume reduced by demands for exportation. On the whole, no method has hitherto been formed to establish a medium of trade, equal in all its advantages, to bills of credit made a general legal tender."

This, it will be seen, covers the whole ground of the propositions advanced by me, for those bills of credit are identical with the absolute money proposed by me for the circulating medium of the United States.

The present annual products of the country amount in value to more than $8,000,000,000, of which $76,000,000 are in gold and silver. All these eight thousand millions of products would be, as it were, a security for that national money, since that money would always be a legal tender, and the only legal tender in the country for the purchase of them; and it must be further remembered, that every year swells the amount of our annual products in enormous proportions, and increases the security of this absolute money in a corresponding ratio. This is another reason why the gold basis is utterly unsuited for the transaction of modern trade and business. Not more than $200,000,000 of gold and silver money now exists in the United States, as a basis for our inter-state business, and for our foreign exchanges in the yearly interchange of our products and commodities. This amount of gold and silver money remains comparatively stationary, and hence is evidently altogether too narrow a basis to meet the requirements of our inter-state commerce, and for the constant and rapid increase of our business transactions. Hence, I propose to substitute in its place a redemption or conversion of the absolute money so large that it can never fail. It is in our eight thousand million dollars of annual products, and our foreign and inter-state trade therein, and in all the other revenues and wealth of the people and the government, its public lands and its taxation, that we find the only basis large enough to support the amount of money needed by our country.

These are the factors that will support and redeem, by perpetual conversion, the absolute national money; and what other redemption should it need ? It is the exchange, conversion and use of the annual products that makes the absolute money system necessary; and what greater security can be conceived than its exclusive applicability for that exchange, use and conversion ?

This money, besides, will be based upon the whole bonded debt of the people of the United States; for the whole of that debt will be redeemed by this money gradually, as I shall show more at length hereafter. This money will, therefore, represent in reality only the amount of the national debt now owing by all the citizens of this country. What is the use, then, of trying to redeem in gold and silver coin, and of thereby cancelling a money medium which represents their own debts, and at the same time serves in its function as a circulation to carry on all their business operations, and the development of all their industries on the safest and most practical basis ?

Each citizen being equally interested in the co-operative government of the United States, in proportion to his capital and industry, and bound to accept this money as the only legal tender of the nation, it is absurd to speak of an artificial and deceptive redemption in specie in connection with it. Each citizen at present owes his share of the public debt, and is bound to pay his portion of it out of all the commodities and annual products of the country; and Congress has full power to make such payment legal, and bind all the citizens to liquidate the debt by taxing them.

But Congress has also full power to liquidate the debt by substituting in its place an absolute national money, and bind the citizens to take it, by making it the exclusive legal tender of the country; and I submit that, apart

from all the other reasons advanced by me, the immense economy resulting from such a substitution of money for bonds drawing interest, ought alone to decide in its favor.

Based thus upon all the products, commodities, the wealth, power and sovereignty of the nation, this money would operate in representing absolute value without any intrinsic value of its own, some what like an execution issued upon a judgment for the collection of, say, $100,000 out of the property of a defendant. This, as an instrument representing values, has no intrinsic value of itself. It is a piece of paper, with the seal of the court attached to it, and an order to the sheriff to levy upon the defendant's property and sell it to make the amount out of it which is necessary to pay the plaintiffs' judgment. The power of the execution and its value in fact and in law, depends not upon the value of the material on which it is written or printed, but upon the available wealth of the defendant wherewith to pay or satisfy it, and the authority of the state, within whose jurisdiction the writ is issued, to compel the enforcement of the process. The same governmental power that makes the execution so capable of representing value, gives the national money power to satisfy the execution. One piece of paper satisfies the other —in this way the absolute money issued by the government would represent all the available wealth, present and future, of the nation and each one of its taxable inhabitants.

The advocates of a specie basis sneer at this proposition of a currency irredeemable in specie. But why call it irredeemable, when I propose that the government shall make it redeemable in all the commodities of the nation, receivable for all salaries, debts, judgments and taxes, duties and imposts, by constituting it the only legal tender for all time to come ? It seems to me, rather, that specie would be irredeemable, when once deprived of its legal tender character.

This is by no means an exaggerated statement, put in here for antithetical effect. Gold, for instance, is not "redeemable" in the greater part of Asia. Silver, on the other hand, is not "redeemable" in Germany, and has even in England fallen nine per cent. in price during the last three years. Germany has demonetised $300,000,000 of silver coin, and is very anxious now to get rid of it at a considerable discount. Belgium and Holland also evince a disposition to demonetise silver, and if they do there will be another $100,000,000 thrown upon the market. But there is very little demand for it. Nobody wants the "precious metal" in Europe, strange as this may sound to our American specie worshippers, who are always pointing to Europe as the country we should pattern after in financial affairs. The only demand for silver is in Asiatic countries, amongst the effete populations of China and India. But the commerce of those nations is so limited, that their requirements fall far short of the amount of silver put up for sale in the European market. England last year exported to the East and to Egypt £6,840,000, which is only some £3,000,000 in excess of her average annual export of silver to those countries. These £3,000,000 or $15,000,000 came from Germany; but if the demand grows no larger the price of silver will probably fall still considerably below its present discount of nine per cent., especially

as the supply of that metal from our mines in Montana, Nevada, Utah and New Mexico is likely to increase constantly.

And why is silver not wanted by the people of Europe ? Clearly not because the opening of new mines have produced an excess of money in Europe, as the specie worshippers argue; for if there were an excess of money, the people would not increase their money circulation by issuing more paper money, as they do in every European country. Paper money is not at a discount in England, in France, or in Germany. It is only specie (silver) money which has depreciated in value. Let our specie-spousing financiers in the federal Congress explain why we should re-establish as money a metal which has been demonetised in one of the largest countries of Europe, is now at a discount of nine per cent. in London, and will, according to all appearances, continue to depreciate for a long time. "Redeemability" of our legal tender in (silver) specie would, therefore, not only be a fraud, but it would be a downright swindle perpetrated upon the holders of the legal tender.

The advocates of a specie basis also call a currency, irredeemable in specie, a forced loan. But the same term might apply to the gold and silver coins, which they propose to constitute the exclusive money of the country. Besides, has not the check and draft system of our banks also the character of a forced loan ? And ought the largest corporation of a country, the government itself, to be deprived of a privilege which it confers now upon the directors of every village bank which it charters ? Is it not a downright absurdity that we should pay 23,340,000 dollars in gold annually in interest to National Banks, for giving them the privilege of issuing a currency, upon the security of our government bonds, when the government itself could issue such a currency with far more security, and at a great saving to the people at large.

And is it not equally absurd to look upon the legal tender notes of the national government as unsecured because they have no "specie basis," and at the same time to speak of the notes of the National Banks as secured, because they have a "bond basis"? The legal tender note is a paper issue of the government of the United States, and so is the bond pledged for the redemption of the issue of the National Banks. Is the bond, which bears interest a better security than the legal tender, which bears no interest ?

I should say, rather the reverse; and for the simple reason that the amount of the legal tender notes does not increase by the accumulation of interest. It is gratifying, however, to notice that the minds of the people at large are gradually becoming convinced of the uselessness and expensiveness of this national banking system, and warrants the hope that they will also, in course of time, see the uselessness of the bond system, and the immense advantage of substituting in its place a pure legal-tender money, large enough in volume to meet the requirements of all the business, trade and manufactures of this vast country. That the people of the United States will ultimately establish such a money, I do not doubt in the least, since even some of our most eminent public men have already cast off their old superstitious faith in the almighty power of coin as money. Thus the Hon.

George Opdyke, who is not only distinguished as a political economist, but also as a practical banker, defines money, not as gold and silver coin, or the representative of coin, but as "an instrument of commerce designed to facilitate the exchange of all other commodities, by presenting an equivalent in a portable and convenient shape." And the Hon. O.S. Halsted, Ex-Chancellor of New Jersey, in quoting Mr. Opdyke's definition, in a letter to the Hon. John G. Drew, of Massachusetts, who also is a convert from the faith in coin almightiness, says:

"I am glad to be able to agree in Mr. Opdyke's definition of money. We hear it said now-a-days that gold is mere merchandize. Gold dust, ingots and nuggets are merchandize, ... but gold coined by government is money, A government, however, can make money (Opdyke's Instrument of Commerce,) of any material and of any shape and value it pleases. Our government has made what we call legal tenders, money, or instruments of commerce; can it be said that those legal tender notes are merchandize ? One and the same thing cannot be both money and merchandize."

In this place I may as well answer the objections which Mr. Patterson raises in his work, *The Economy of Capital*, against such a system of *Nationa*l absolute money, as I have proposed. The reader will have already seen from the various quotations I have made from Mr. Patterson's excellent work, that in the main his views on finance agree entirely with mine. He holds, as I do, that the value assigned to gold as the exclusive money medium, or, as Mr. Patterson phrases it, the "canonization" of gold, has its origin simply in fiction or superstition. He holds, as I do, that it makes no difference at all whether the substance of which money is composed has any intrinsic value at all; "that gold, silver, copper, iron, shells, pieces of silk, cotton strips, stamped leather and stamped paper" have been used and are used in different parts of the world as money with equal success; and that the one quality which gives these substances their circulating power as money is simply "the agreement on the part of nations to recognize those substances as representatives of wealth." Mr. Patterson agrees with me, furthermore, that gold and silver are altogether unsuited and inadequate to carry on the trade, commerce and enterprizes of modern times; unsuited, on account of their weight, their susceptibility to wear, and their great bulk; inadequate, because the amount of gold and silver in the world would not be able to transact five per cent. of the world's business, not even the business of London alone. Mr. Patterson, therefore, agrees with me, that it is an absurdity, and productive of constant financial distresses, if the business of the world makes still the pretence of being carried on upon a specie basis; especially as the banks, through whom the interchange of that business is effected are constantly crippled, by being supposed to operate upon a specie basis, which they demonstratively cannot do. He proposes, therefore, that paper money, which has hitherto been only a representative of gold money, should become a substitute for gold money; the same proposition that I have made.

But from this point on we differ. Whilst I propose that the paper money should be only of one kind and issued by the Nation, guaranteed by the annual products, trade, commerce, business and all the power, wealth

and sovereignty of the nation, and made the exclusive legal tender over the whole country, Mr. Patterson would have the issue of currency entrusted to a number of private banks, and leave it to the discretion of the bank directors and the confidence of the people how large such issue should be. But I will let Mr. Patterson speak for himself, both in regard to his argument against a National Bank and in favor of private banks. Having alluded to our American Legal Tender issue, of which he speaks as in the nature of State Bank issues, he says (p. 343):

"A state bank* would unquestionably have certain advantages. Its notes being receivable in payment of taxes, and being issued on the security of government, would be made a legal tender throughout the kingdom. They would furnish an adequate currency for the whole internal trade and domestic requirements of the country. And thus, in great emergencies and exceptional times, these state notes would supply an adequate currency for the country, even if, owing to an absence of gold, they were temporarily inconvertible. Nay, more. By means of such a state currency the precious metals, and the *fluctuation inseparable from them, could be dissociated from the currency, and their value would be measured in it like that of all other commodities*. With such a currency, in fact, gold and silver would be bought and sold just like corn or coal, iron or cotton.

"Attractive as such a currency system is, it is open to what we regard as a fatal objection. It is in the form of a state currency alone, that the paper money of a country can be depreciated. The note issues of banks never cause the currency to become redundant, ... for the banks of a country have no motive to diminish their profits by unduly lowering the rate of discount; and if there be no undue lowering of the rate of discount, there can be no undue expansion of the currency. The trading and industrial classes will not pay for more discounts than they want; and it is only by means of discount-operations and such like advances, that a bank can get its notes into circulation. But with a government the case is widely different. A government expends many millions of money every year, and all these payments can be made in its own notes. Any amount of paper money may thus be forced into circulation, whether there is a demand for it or not."

Before proceeding to answer Mr. Patterson's objection to a "state" (or national) "bank," and his arguments in favor of private banks, I desire to call attention to a singular admission on his part in favor of a "state bank," to which he attaches paramount significance in various other parts of his book. He says, that the fluctuations, inseparable from a specie basis, could be dissociated from a "state bank" currency, and that the value of the precious metals would be measured in it like that of all other commodities. This means, of course, that such a "state" or national currency would be subject to no fluctuation whatever —a proposition which I have conclusively demonstrated in previous parts of this work, and that "no variations could take place in it as a measure of value," to use Mr. Patterson's own words. But this "variation" is precisely the main objection, which he raises against the present money system of Great Britain. He says, "Economy of Capital," page 286: "Far greater and infinitely more injurious to the community" — than a change in other measures would be— "are the variations, which at present take place in our measure of value. That measure" —the money

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* Whenever Mr. Patterson uses the term "State Bank," let the American reader translate it "a Bank of the United States," as the states of our Union are not states within the European meaning of the word.

measure of the bank-notes issued on a specie basis— is constantly expanding and contracting in a manner that baffles all calculation. It varies sometimes even to the extent of a third or a fourth —to the extent of twenty, twenty-five or even thirty per cent." By which he means, that the expansion or contraction of the volume of currency, which volume here he calls the measure of values, raises or lowers the price of commodities; a pure assumption, as I shall show, and as Mr. Patterson elsewhere also admits; since the volume of currency or circulation has very little to do with the prices of things, unless it becomes so small as to paralyze or cripple trade.

Now Mr. Patterson supposes, that this money measure of Great Britain can be made far more uniform if the circulation of the country is so regulated as to avoid recurring scarcity or redundancy; and since that circulation is composed of two factors, specie and bank-notes, his proposition is, that as specie is withdrawn, more notes should be issued to take its place and fulfill its functions, whilst if specie accumulates notes should be withdrawn. But if there "is an extra demand for money," then an extra issue of notes should be made also; since in that case the effect of such issue would be simply "to preserve the measure of value unchanged." (p. 297.)

This would still give a sort of specie basis to the banking system of Great Britain, and hence would leave unremoved the difficulty which the financiers of that kingdom have never been able to solve: to organize a banking system upon a specie basis, which would furnish the people a permanently reliable "measure of value;" Mr. Patterson himself admitting that no stable or fixed measure of value has ever existed in the United Kingdom since the organization of the Bank of England in 1694. For no matter how the withdrawal or accumulation of coin and the issue of bank-notes may be made to correspond with each other, two great factors will always act as disturbing elements and vary the "measure of value;" namely: first, the growth of trade and enterprise; and secondly, the increase of gold and silver money from the mines; an increase, that, during the past twenty-seven years has reached the large sum of over $2,400,000,000, and during the operation of which the "measure of value" has become more uncertain than ever, and panics consequently more destructive. And it must further be taken into consideration, that this uncertain and constantly fluctuating increase of specie money, is made still more variable by the wear of the precious metals. In gold, intrinsically the most worthless of all metals, this wear assumes astonishing proportions. The gold worshippers may find it rather hard to believe, but it has, nevertheless, been ascertained by careful calculations in various countries, that the gold coins of a country, in actual circulation, loose about one thirtieth in value every year from mere wear. A thousand dollars of gold coins are thus reduced to zero within thirty years; and the above $2,400,000,000 added to the world's metal money in the course of the last twenty-seven years, have been already reduced by wear about $1,600,000,000.

If Mr. Patterson, however, really does not desire specie basis and proposes to bring permanency into the "measure of value" of Great Britain, by leaving the issue of paper money solely to private banks, he will still less

accomplish his object by that plan. And this leads me to the promised criticism of his system and its comparison with mine.

If there is no governmental money in a country, this is Mr. Patterson's argument, no government bank, in short, under the control of legislation, but if the issue of bank-notes is left entirely to private incorporated banks, unrestrained by law in any manner, and kept in check only by the demands, needs and confidence of the people, then that country will have a perfect system of banking, and fluctuation in the value of the "money measure" will be next to impossible. The discount operations of these private banks will be, in Mr. Patterson's opinion, the restraining element against excessive expansion, "since it is only by means of discount and such like advances that a bank can get its notes into circulation; "and since" the trading and industrial classes will not pay for more discounts than they want."

It were well if this were true —if people would not borrow any more money than they needed ! If this were so, we should have less "enterprise" in the world, but also proportionately less bankruptcy and financial distress. But the whole history of finance proves rather the reverse, namely, that people will pay discount, for all money they can get, no matter what kind of money it is.

Whether a bank has a right to issue money, or whether by issuing it, the bank endangers its financial position, the borrower does not stop to inquire; all that he cares for is, that the money shall serve his immediate use. He wants to build a railroad, for instance; hundreds of miles away from the bank with which he negotiates his loan. The bank has no notes to spare just now; but under Mr. Patterson's rule, that the loan would not be asked for if there were not an actual need of the money, the bank issues as many notes as the borrower desires. He builds his road and pays out the notes, which thus become scattered all over the country. What does he care whether the notes will remain current or not ? Suppose that the railroad enterprise turns out a failure before he has repaid the bank its advance. Will not the bank bear the whole loss ? And will not every bank under the operation of such an unchecked system be tempted to negotiate just such loans, and in such amounts as must necessarily drive them at the end into bankruptcy ? It is true, that in Scotland a similar system has been extremely successful. But Scotland is a small country, and its people are exceptionably prudent and honest. The experience of every country in the world, where such unchecked issues of private banking corporations have been tried, contradict the experience of Scotland, flagrantly.

In this country we have had special facilities to become acquainted with the practical operation of Mr. Patterson's banking scheme. A number of my readers will recollect the results that followed President Jackson's breaking up of the United States Bank, and the removal of the federal Treasury deposits to the state banks, which were precisely such private incorporated banks of issue and discount as the Scottish banks that are Mr. Paterson's ideal. From 1833 to 1837 the issues of those banks and their discounts were so excessive, that a universal speculating mania set in, which was followed, as a matter of course, by a general suspension and financial

depression, so terrible in its effects, that it took the country full ten years to recover from it. On a still larger scale —in proportion as the settlement of the country has enlarged and new States been added to the Union— as the panic of 1857. Again every state had its countless number of banks of issue and discount, all of them practically unchecked in their operations; for although the law required each bank to hold a certain proportion of their circulation in gold on hand in their vaults (in most of the states one-third), that regulation was virtually inoperative. Supervision by the law or by the banks themselves over each other was, in fact, absolutely impossible, considering the number of banks and their remote locations. The demand for discount was unlimited. Everywhere railroads were constructed, towns built, land bought and put in cultivation, manufactories started; and nearly all this enterprise was carried on by money obtained from the banks, who never thought of "lowering their rate of discount" as they increased their circulation —as Mr. Paterson seems to think must be the effect of expansion — but, on the contrary, were generally enabled to raise their rate of discount in the face of this universal demand for money. Suddenly a small storm-cloud of distrust arose in New York, owing to the suspension of a large bank, the Ohio Life and Trust Company, and spread with the speed of lightning over the whole country, letting loose all the fury and violence of a money hurricane. Every bank was forced to suspend, the greatest number forever. It is true, that the more cautious and stronger banks of New York City and Boston, although obliged to suspend temporarily, were able to come out right again after the first violence of the storm had passed over, and that the circulation of those banks never depreciated; but the number of incautious banks was incomparably larger. Nor can I conceive by what methods and regulations the imprudent excessive issue of circulation and discounts, which brought on the panic of 1857, can be prevented, especially where the number of banks is so large, and where they are scattered over so extensive a territory as the United States. I do not mean to say that the amount of money put forth by those banks in 1857 was larger than the country needed at the time; likely enough it was not even sufficient. But as that paper money was issued by private banking corporations, it had necessarily a "redeemable basis," which at that time was a specie basis —and this was the real cause of the runs on the bank and the consequent suspensions. Had those banks been national banks or private banks, using for their circulation national legal tender notes irredeemable in specie, but convertible into all the products of trade and industry in the nation, there would have been no runs and no suspensions, even if the circulating medium had been twice as large. This has been shown by the panic of 1873, when there was no run to speak of upon National Banks for the redemption of their notes in legal tender money, and when gold was lower in price than it had ever been since the outbreak of the war, or has ever been since.

And this brings me —having shown Mr. Patterson's argument in favor of private banks to rest on a false presupposition— to meet his objection against a national money system, such as I have proposed in this work. For he has only one objection to such a money, though he admits its advantages

to be numerous and great. He admits, that an absolute national money system would furnish "an adequate currency for the whole trade and domestic requirements of the country;" adequate even "in great emergencies and exceptional times," and even "if they were temporarily inconvertible into specie. Nay, he admits that such a state or national currency would put an end to the fluctuations arising from a specie basis, and thus achieve the greatest of all financial desiderata —an unchangeable measure of values.

And what is the one objection which in Mr. Patterson's opinion outweighs all these admitted and inestimable blessings ? Because "it is in the form of a State" (national) "currency alone, that the paper money of a country can be depreciated." Why ? The answer shows the weakness of Mr. Patterson's objection most clearly. Because "a government expends many millions of money every year, and all these payments can be made in its own notes." As if every government did not possess this right to issue bonds, notes, or any other kind of pledges to meet financial emergencies — no matter whether there are private banks of issue in existence or not ! That power of a government, therefore, which Mr. Patterson considers the only objection to a national money issue, namely, the power to increase its money or debts by new issues for either annual or extraordinary expenses, cannot be taken away from a government at all, being inherent in its sovereignty. Hence, so far as that objection is concerned, it is altogether indifferent, whether a government is always the exclusive issuer of bank-notes for a country, or whether it leaves such issue to private banks during ordinary times, and resorts to issues of its own only during extraordinary times. In truth, Mr. Patterson himself, in other parts of his work (see especially pages 455-6), seems to suggest that government, or "ordinary legislation," as he says, ought to exercise that power in extraordinary times, namely, the power of increasing the money circulation of a country. Or else what does he mean when he congratulates Great Britain, that "a great war and serious necessities of the state" forced the government to introduce the blessings of paper money in that country, and expresses a belief, that "another great war and pressure of state necessities" would do away with the last "errors of the bullionist theory;" which can only mean in the connection, that it would end in the abolition of a specie basis, and in the issue of more money, directly or indirectly through the government.

What Mr. Patterson says of the French Assignats and other national money schemes of the past, I have controverted elsewhere; but when he cites our greenbacks in the same category, he is essentially mistaken. The strict truth is, that our greenbacks have never been a depreciated currency. That is to say, the prices of all commodities, with the exception of gold and silver, has remained pretty well stationary during all the issue of greenbacks. The few things that rose in value beyond the ordinary rate, were chiefly war necessaries; but then numberless other things fell in price for some time. I need merely allude to real estate in most parts of the country.

Greenbacks had, therefore, not depreciated. But it has become the fashion of late to state, as an axiom which no man would dare to dispute, that it was not gold which was at a premium here, but our greenbacks which

were at a discount. That this axiom is utterly false appears from what I have just said. If greenbacks were at a discount, the price of all commodities would be raised in proportion to the discount. But it is a notorious fact, that it was and is only gold and silver upon which the price has been raised. Though gold was quoted at 50 per cent. premium, as against greenbacks, in Wall street on one day, and at 200 per cent. premium a few days after, the price in greenbacks of lands, houses, rents, groceries, nearly all the dry goods, &c, remained quietly the same. The currency, therefore, was not depreciated, but gold was, through the agency of coin and stock gambling, at a premium. So was gunpowder and labor; so were cannons and cannon balls; and these were real premiums produced by the stern demands of war.

If that sort of argumentation held good, that our currency depreciated during the war because Wall street speculation, of the wildest, most unsubstantial kind, sent the price of gold up to two hundred and seventy-five per cent. premium for a short time, what must we say of the depreciation which *gold* suffered in England during the same period, since the price of *cotton* rose in that country, from 1860-1864, full four hundred per cent. As against cotton, the gold money of Great Britain had, therefore, depreciated considerably more than our legal-tender money had depreciated as against gold in Wall street, with all the stock and coin gamblers to support it. And, what is more, the legal tender depreciation here was merely a speculative affair, while the gold depreciation as against cotton in Great Britain was a grim reality, for awhile spreading fearful ruin over the manufacturing districts. The demand for cotton and gold in the respective localities regulated the price of each commodity, according to the laws of trade.

But I go further and deny Mr. Patterson's assumption, that under a well-regulated national money system, like mine, the government would settle its payments in its own notes, and thus force "any amount of paper money into circulation." Its yearly payments would be settled by its yearly revenues; which by close calculation can always be made large enough to meet every contingency. Should there be a deficiency, however, I don't see why it would be more improper to supply it by an issue of treasury notes than by an issue of bonds, as governments are now in the habit of doing. I am fully convinced, however, that a well-regulated system of annual statistics, and a carefully prepared report, made by a Board of Commissioners based upon those statistics, and stating the amount of additional money —if any— needed by the country, would render any extra issues unnecessary, except in the case of another war. But all these points I have discussed elsewhere in this work.

chapter VII.

RELATION OF ABSOLUTE MONEY TO FOREIGN EXCHANGES.

Foreign Exchange not Regulated by Exportation of Coin but by Exportation of all kinds of Products — The Price of Gold does not Regulate the Price of Exchanges — Our Absolute Money would soon be as Current in Europe as our Bonds are now — An International Clearing House.

The main objection that is raised against such a purely national legal-tender money as I have proposed —apart from the objection raised by Mr. Patterson, which I have answered in the previous chapter— is, that it might lead us into difficulty in our foreign exchanges. But this fear is wholly groundless. We do not now make our foreign exchanges by means of gold and silver coins, but almost exclusively by means of cotton, pork, wheat, petroleum, tobacco and other commodities. A comparatively small part of our exports or imports is constituted of gold bars and gold coins, and that part we shall always export and import in the same way. Even now it not unfrequently happens that gold is shipped from Europe to the United States, instead of being exported by us. Gold may be worth fifteen per cent. here, while London exchange sells at five to eight per cent. premium. This whole matter of foreign exchange is, indeed, easily regulated every day, not by coin, but by drafts and bills of exchange.

If any one doubts this, let him inquire how England managed to settle her foreign exchanges in the critical period from 1797-1815, when there was hardly a guinea in circulation in the whole kingdom, and when extraordinary foreign payments had to be made; or let him inquire how foreign nations settle their exchanges with China, where gold is not received as money, and silver is the only legal tender.

The suggested difficulties in procuring foreign exchanges are, indeed, altogether imaginary. We shall never lack exchange enough to meet our wants;* and if exchange should turn against us, we need only reduce our unprofitable luxurious imports correspondingly to balance the account. Besides, the Europeans who come here will always bring foreign exchange with them, and sell it for legal tender here. Legal tender here, again, will always buy gold drafts on Europe. It is so done now, and will be so done hereafter. Then, again, just as soon as the nature and power of these legal tenders became known in Europe, they would be as acceptable there as our bonds are now, on account of their preeminent security over all other monies of the world, and just as the notes of the Bank of England are

* Should this appear extravagant to some of my readers, I call their attention to the fact that, even during the panic of 1857, when all the New York banks suspended specie payment, the notes of those banks not only continued at par, but actually, at one time, rose to a high premium compared with gold, in the purchase of foreign exchange. The *Times*, of October 31st of that year, states: "Good sight bills on London could still be purchased at an exchange of 101;" and adds: "The extra ordinary fact is, therefore, exhibited of the inconvertible currency of the New York suspended banks being actually at a high premium, compared with the specie currencies of other countries. That is to say, a bill on London could be purchased in the notes of the New York suspended banks at a price which, after allowing for interest and all charges, would bring back in gold a larger sum than had been paid for it."

current all over Europe and here. As I have hinted, however, in my work, *Liberty and Law*,** it is quite possible that the creation of a national currency by the United States would be accompanied by so many beneficial results, as would induce other nations to follow our example, and gradually lead to the establishment of an International Clearing House, where foreign exchanges would be settled under the direct control of the governments concerned. The people would then not be forced to rely upon private bankers for their supply of foreign exchange, and would not be subject to such losses and inconveniences as resulted from the late failures of Bowles Bros. & Co., Jay Cooke & Co., and others. My system, therefore, would prove not only practicable, but beneficial even in its relation to our money transactions with foreign countries.

** "In the course of time it will, no doubt, be feasible to arrange treaties with all civilized foreign countries regulating the value and standard of money, and thereby to allay altogether this spectre of foreign exchange, under pretext of which the people are imposed upon in every direction by money-monopolies. The superstitious notions concerning the god of Mammon, as represented by gold and silver, must be swept away, even like all other superstitions handed down to us by preceding generations.

"To state this feasibility in the concisest way: it is quite as practicable to establish an international clearing-house, as it has been found practicable to establish clearing houses in every large city. In this international clearing-house the paper moneys or drafts of each separate state in the world would be sent for exchange, as such exchange may be wanted, and rules could easily be arranged between the several nations composing this international clearing-house, concerning the way in which the balances should be settled or adjusted, and the international code and judicial department for the administration of international justice would aid the clearing-house in effecting these measures.

"Situated as our country is, in the most favorable geographical position, between the two great oceans of the world; the developed civilization of Europe on the east and the wealth of Asia on the west, connected already with the one continent by several lines of telegraphic cable, and undoubtedly soon to be connected in like manner with the East Indies, China, and Japan; exhibiting a wealth many million times in excess of our outstanding circulation, and a productiveness in all articles of commerce which, under the exercise of judicious economy, is amply sufficient to balance our imports by our exports, and having the capacity of establishing a commercial marine that would control the commerce of the two oceans, no other nation is so able and competent to introduce the purely rational system of money herein developed, and be the first to reap its incalculable blessings." —page 176-7.

chapter VIII.

ABSOLUTE MONEY WOULD NOT PRODUCE INFLATION.

ABSOLUTE MONEY WOULD CAUSE NEITHER INFLATION NOR AN INCREASE OF PRICES — R.H. PATTERSON — REPLACING OUR BONDS IT, WOULD NOT CHANGE THE QUANTITY, BUT ONLY THE QUALITY OF OUR CURRENCY — PRESENT SCARCITY OF MONEY — ITS CAUSES — THE ONLY REMEDY AN IN CREASE OF CURRENCY — HON. D.W. VOORHEES — PRICES ARE BUT LITTLE AFFECTED BY THE AMOUNT OF MONEY IN CIRCULATION — MONEY A LEVER — AN INSTRUMENT OF COMMERCE AND TRADE — ILLUSTRATIONS — SENATOR MORTON — MONTESQUIEU— TABLES OF PRICES FOR THE 13TH TO THE 18TH CENTURY — PRICES DURING THE LATE CIVIL WAR, AND BEFORE AND SINCE — THOMAS TOOKE ON PRICES — COLWELL — NEVERTHELESS A SUFFICIENCY OF — CIRCULATION IS NECESSARY TO PREVENT STAGNATION IN ENTERPRISE AND PANICS — PATTERSON — HOW A SMALL CIRCULATION ENABLES SPECULATORS TO LOCK UP MONEY AND CREATE PANICS.

The same can be said in regard to the other chief objection urged against it, that it would constitute an inflation of currency, which though for a time it might stimulate an unusual development of our commerce and industry, must end very soon in general bankruptcy. This objection has some weight when urged against an increase or "overissue" of currency convertible into bonds, or promising to be redeemable in specie; though even in the latter case, disastrous results do not follow, so long as the banks of issue retain popular confidence.* But the money, which I have suggested, is not susceptible to any sort of depreciation, since it does not pretend to accomplish more than it can do; though it does propose to accomplish that, guaranteed and supported as it will be by the whole power, wealth and sovereignty of the nation that issues it. What would be the effect, then, of its issue ? Not only would it save our people an annual tax of one hundred and seven million dollars, paid now as interest on the bonds which this currency would replace, and the enormous expenses of our Internal Revenue system, which it would abolish, but it would furthermore cause the holders of that money —since it could no longer be converted into interest-bearing bonds— to loan it out at cheap rates of interest, or to put it to use by building houses at cheap rents, constructing railroads at cheap rates, and erecting manufactories.

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* This has been admirably shown by Mr. Patterson in his *Economy of Capital*, pages 187, &c. Speaking of some "overissues" of the Bank of England, during the great monetary crisis of 1836-9, he says: "The increase of the bank's issues to the extent of a million or two above the ordinary amount, was held capable of producing the most momentous consequences. It 'depreciated the currency,' and was the parent of our recurrent monetary crises. The upholders of this theory, it is true, never demonstrated, by a reference to prices, that the currency was depreciated."

(Indeed, so far from the currency being depreciated during the disastrous years, from 1836-9 —when one of those "overissues" took place, the case was the reverse. Nor did the much greater "overissue" of 1852-3 produce a crisis or difficulty of any kind.)

"It is a very neat theory. But it will not square with the facts. We, who have seen 300,000,000 added to the general currency within fifteen years, with so little effect that it is still doubted by many authorities whether there has been any depreciation of money at all, and when the loanable value of our currency has notably increased, may well be skeptical as to the doctrine of overissues, even if we had not other and direct evidence to the contrary."

And again:

"What are we to think of a theory which attributes our monetary crisis to overissues, when it is a fact, that in every crisis during the last seventy years, the very thing which at length stopped the run upon the bank has been a sudden, and sometimes a great increase of its circulation, by an expanse of its discount operations ?"

It would develop our commerce and industries, and increase our annual products beyond the most sanguine expectations; and not being convertible into bonds, could not possibly cause that prosperity to fluctuate. While, therefore, in one sense it certainly would be an inflation, in another sense it would be no inflation at all. For as matters stand now, the bonds which this currency would replace, serve in part as money, though in a cumbersome and expensive way. In other words: the substitution of such national money notes for bonds would not change the quantity but only the quality of our currency, would simply make it more useful, and compel the owners of that money to invest it usefully or loan it out at cheap rates; whereas now they hoard their bonds, and levy an oppressive tax on the citizens for the payment of the coupons, while they themselves escape taxation on the bonds held by them.

It is mainly due to this hoarding of bonds, that real currency has become so scarce as to check our building of railroads and close our factories, and that financial depression has spread over every part of our country. We are told, that scarcity of money can not be the cause of this depression, since money is more than plentiful in the large financial centers of the country —in New York, Boston and other places— and that the rate of interest in those cities has never been so low as now. But this argument rests upon the fallacy, that because there is a superabundance of money in New York, money can not be scarce in the country at large. The reverse proposition is much nearer the truth; for when money is plentiful in the country it does not go begging low rates of interest in New York. But even for New York city that statement does not hold good. There is not a superfluity of money in the city; that abundance is only in Wall street and on the Stock Exchange of New York. Merchants and manufacturers find it as difficult to borrow money in New York as in other cities; it is only the stock brokers and banks, who borrow money on call and upon collateral, that can be immediately realized, for whom money is plentiful and cheap. The rest of the country languishes under the want of money, and can not find means wherewith to advance further the prosperity of a few years ago. The only remedy for this state of things lies in the proposed substitution of an absolute legal-tender national money for the interest-bearing bonds that are lying idle in the treasury and in the vaults and safes of our banks now, and the employment of that money for the development of our resources.

The history of all money panics and financial depressions proves, that this increase of currency is the only remedy, and is immediately effective. In the great crisis of 1797, when the Bank of England was almost without a sovereign in its coffers, and had to suspend specie payment, it extended its issues of paper £2,000,000, and the panic was stopped almost on the instant. In the crisis of 1826, again the bank issued notes to the amount of £5,000,000, and "the panic was stayed almost immediately."

The same truth is exemplified by a comparison of the volumes of currency in Great Britain and France with the currency circulation of the United States, and the *per capita* relation of the currency in each country to its population. The following tables furnish the figures:

FRANCE.

Gold coin in circulation		$800,000,000
Silver coin in circulation		300,000,000
Bank of France paper		600,000,000
Total		$1,700,000,000
Population of France	35,844,314.	
Circulation, *per capita*,	$47.22.	

GREAT BRITAIN.

Coin in circulation	$500,000,000
Bank-note circulation	259,000,000
Total	$759,000,000

Population 32,000,000
Circulation, *per capita*, $23.72.

UNITED STATES.

Legal Tender	$382,000,000
Fractional Currency	48,151,024
National Bank Notes	348,791,152
Total	$778,942,176
Less the bank reserve in Legal Tenders	150,000,000
	$628,942,176

Population 40,000,000
Circulation, *per capita*, $15.70.

It will be seen from this, that by the increase of our present circulation to about $2,000,000,000, as it would be by the time that my system were fully established, the circulation per capita in the United States would be only three per cent higher than it is in France, surely not too much, considering that the area of France is only 204,090 square miles, while that of the United States is 3,611,844 square miles, or nearly eighteen times as large. And this element of the area of a country, in calculating the proportion of its circulation in comparison with that of other countries, is a very important matter, as I have shown elsewhere —though writers on finance have hitherto failed to take notice of it.

It will also appear from these tables, how utterly without foundation has been the cry of the specie worshippers, that our circulation was in excess of that of other countries. It is only one-third in proportion of the circulation of France; and two-thirds of the circulation of Great Britain. Do not these figures account sufficiently for the financial depression visible everywhere in the United States, and the amazing prosperity of France, which is even greater now than that of England ?

I might multiply instances in illustration of this truth, but my readers will no doubt be able to verify it from their own experience.**

** Nevertheless I will briefly refer to the effects, produced by the same cause, scarcity of money, in our own country, by quoting the following statistical statements from a speech, delivered by the Hon. Daniel W. Voorhees, at Greencastle, Indiana, on the 24th of September, 1874. Mr. Voorhees said:

"According to the report of the secretary of the treasury, issued August, 1865, the volume of our circulation at that time, including the five per cent. Legal-tender notes and certificates of indebtedness which were used in the larger transactions of trade and financial exchange, amounted to $1,152,914,892.67, upward of four hundred million more than we have now. What was the effect of this large amount of paper circulation on the business of the country ? It will be found by reference to *Hunt's Magazine and Year Book* for 1870, a standard authority, that during the years of 1863, '4 and '5, the years of the greatest expansion —the aggregate liabilities of all the commercial failures in the United States amounted only to the sum of $34,103,000. It was then, however, that Hugh

Whenever the money volume of a country is not large enough to furnish a circulation sufficient for the business of the people, all trades will suffer, the manufactures will be stopped, enterprizes checked, the debtors become insolvent, and as a final consequence, the laboring masses will be thrown out of employment and reduced to the verge of starvation. An increase of the money medium to the proportion required by the growing development of trade in the country, on the other hand, will necessitate an increase of all kinds of enterprizes and effect a corresponding prosperity amongst all classes of people. It is very wrong to argue, as some would-be financiers do, that an increase of the money medium expands prices[2] of all kinds, and hence by making expenses greater, cannot possibly affect the prosperity of the people. The increase of money does not operate in that way at all in a progressive country, but rather like a lever; it enables men to do more than when money is scarce. Money is an instrument which moves commerce and enterprizes of all kinds, as the lever moves weights.

It is true, that a slight increase of prices has occurred since the money of the world has increased so rapidly; but that rise of prices is altogether out of proportion to the increase of currency, as I shall show directly, and due mainly to increased demand. Indeed, it may be set down as a financial axiom, that prices advance only in accordance with the demand for commodities, and that the volume of currency has nothing to do with them. It is not to influence the prices of things, that I hold it the duty of every nation to furnish its people a money medium large enough to carry on its trade, industry and enterprizes of all kinds, but in order to foster prosperity and create remunerative employment to the laboring classes, who would otherwise soon sink down to the lowest stages of barbarism and crime. A greater economy not only of capital, but also of labor, than would result from the establishment of the absolute money system proposed by me, is not well conceivable. As for the relation of prices of commodities and the

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McCulloch, secretary of the treasury, began his favorite policy of contraction —of destroying the circulation in the hands of the people, for the benefit of the moneyed corporations and monopolists. The same authority I have just cited, shows the fruits of his policy. The aggregate liabilities for the commercial failures of 1866 amount to $47,333,000, being $13,230,000 more in one year under contraction, than in the three years previous. Take the next three years, however, while the work of contraction was going on, and the result is still more astounding. During the years 1867, 1868 and 1869, the liabilities for commercial failures reached the enormous sum of $208,739,000. But does some one ask the amount of contraction during that period ? I will answer. Mr. McCulloch, in his report of July, 1868, shows, as a thing to boast of, that he had withdrawn from circulation, since August, 1865, the vast sum of $372,354,779.27. But a fraction less than $125,000,000 a year of contraction ! No wonder, that the withering and deadly influence of such a policy continued to blight the business prosperity of the country. The years of 1870, 1871 and 1872 exhibited the sum of $286,005,000, of liabilities growing out of the commercial failures of these three years. And as a culmination, for the present, at least, of this most disastrous financial idea, we find, that during the one year of 1873, the liabilities, arising from similar failures in business, reach the fearful sum of $228,499,000."

2 "I apprehend, that bank notes, bills or cheques, as such, do not act on prices at all." — James S. Mill.

To which quotation Mr. Bonamy Price, Professor of Political Economy in the University of Oxford, adds: "This is a fundamental truth of immense importance in currency; it kills off at once a multitude of empty theories about inflations of bank, notes, which expand the circulation, and swell prices, and engender crises, and smite the commercial world with desolation." ---*Principles of Currency*, page 168 (1869)

amount of circulating money in a country, there is so widespread a misapprehension of the subject, that I shall have to treat it somewhat at length. Common sense will show that prices can be but imperceptibly, if at all, affected by the amount of money in circulation, and experience will corroborate common sense by citing the tables of prices and of money increase for a series of centuries. Of course there are exceptional cases, and these I propose to point out first.

In densely populated districts money can be readily transferred by credits or bank accounts; but in thinly settled districts bank accounts are practically unavailable, and the actual money has to pass. Bank checks or drafts would be useless to a farmer living far from a city; he needs the money. In proportion as this need is felt the demand for money increases; meaning by money the national legal tender, the absolute money, which has the power to purchase everything, and cancel every obligation. The same demand for more money increases as the population of a country increases in numbers; for each additional individual requires more money. This explains why people demand that money should be elastic; but all other systems that I know of, have failed to trace this requirement to its true origin, and hence to prescribe the proper remedy. Numberless plans have been suggested, it is true, but all artificial; my plan is, I believe, the only one based on science, and hence adequate. Senator Morton, in his celebrated reply to Mr. Schurz's speech on our national finances, has explained the reason for this need of elasticity very tersely by a comparison of the circulation of our country with that of England.

"In England," said he "there is hardly a man who has not a bank within five miles. Hence the facilities of banking are much greater there, and much more made use of; and instead of currency, bank-checks are the chief medium of money interchange. But our country is so extensive a territory and in most parts so thinly populated as yet, that we must do a proportionately much larger amount of our business by the direct agency of money. We can not use bank-checks to nearly the proportion that they are used in England."

But surely, if we need this large amount of absolute money, as distinguished from the indirect money of bank-checks, it is certainly much preferable to have it in the shape of government paper money than in the cumbersome shape of government coin. Then, again, if we are compelled to use ready money, in the most practical shape of paper legal-tender currency, and if we need more than England needs, it certainly was not extravagant on the part of Mr. Morton to argue that we ought to have at least as large a circulation as England. But instead of that, our whole circulation of money is in proportion one-third less per capita than that of England.

For the same reason, if a person stands in great need of actual money, or currency, and can not use anything but money for his purpose, and if at the time, and at the place where he lives, money is, from some reason or other, very scarce, these circumstances may compel him to sell his commodities at a much lower figure than he otherwise, and under ordinary

circumstances, would have thought of doing. It makes no difference in his case how large the general money circulation of the country is, the price of his wares are ruled by the local state of the money market at that particular time. The holder of the money which he desires to have, is in the same position as the holder of a piece of property which an adjoining neighbor is determined to possess, or as the owner of provisions would be towards a man starving, but with plenty of money in his pockets. He can demand his own price. What makes all necessaries of life so dear in newly opened mining districts ? Not the amount of money in circulation —for that, as a rule, is preciously small there— but the fact, that those necessaries are scarce, and that men must have them. Why do some people have to pay twenty-five per cent. interest, no matter whether currency is "plentiful" or "scarce" ? It is not the amount in circulation which affects that rate —for the average rate might be four or ten per cent., and still their rate of interest would remain the same— but the absolute, immediate need of it.

It is the superabundance of an article —and especially of perishable articles, such as dry goods, grain, flour, &c.— which causes a downfall of prices, and it is the scarcity of a necessary article which causes the rise in its price. The amount of currency in circulation has next to nothing to do with it.

Montesquieu, in his famous work *L'Esprit des Loix* (book 22, chapter VII), did probably more than any other writer to give currency to the erroneous proposition which I have just controverted. His poetically-tinged mind was struck by the simplicity of the theory, that the totality of commodities in the world is in price always coequal with the amount of money in circulation.

"L'establissement du prix des choses depend toujours fondamentalement de la raison du total des choses au total des signes" (of money). Hume and Locke adopted Montesquieu's notion, and assisted greatly in disseminating it; nor could Sir James Stewart's early contradiction of that theory eradicate the error that had so widely spread amongst the English theorists of political economy; an error which would have never entered the mind of a purely practical financier. To exhibit most flagrantly the error of that view, let us look at the facts of the history of money and prices.

In the 13th century the average price of the chief necessaries of life (wheat, barley, &c.) was, in comparison with the average prices of the same commodities in the first decade of this century as 5.25 to 20

In the fourteenth century as	6.45 to 20
In the fifteenth century as	4.33 to 20
In the sixteenth century as	5.17 to 20
In the seventeenth century as	9.11 to 20
In the eighteenth century as	10.9 to 20

At the close of that century, however, the comparison was as 15 to 20. It will thus be seen that prices fluctuated very little between the thirteenth and the sixteenth century, although gold had poured in during that time from America to the amount of more than $14,000,000. The whole average advance of prices from the lowest figures of the fifteenth century, to the highest figures of the first decade of the present century, are in propor-

tion only as 1 to 3, while the increase of gold and silver money for the same period foots up as 1 to 11.

As this comparison leaves entirely out of view the increase of money of account —drafts, checks, bonds, and exchanges— during the same period, it will appear at a glance how foolish it is to attempt to trace a connection between prices and the quantity of a country's circulation of money. The only ground for the undeniable increase of prices during that period is to be found in the enormous increase of business, commerce, and industry, which took its start in the seventeenth century, and increased the demand for all kinds of commodities, but especially of provisions and labor.

No one will dispute that this increase of commerce and industry, and hence the rate of prices, was in a great measure due to the increase of gold and silver money, and especially to the increase of the money of account. But the effect was chiefly indirect. It was only the increased demand for commodities, which raised their price. The amount of money in circulation had but very little to do with the prices.

To prove this still more strikingly, I desire to call attention to the fact, that while the average prices of the seventeenth century show an advance of 111 per cent. over the prices of the fifteenth century, a period during which paper money was not yet in general use, the prices of the eighteenth century, when a large amount of paper money had swelled the circulating money of Europe enormously, show an advance of only 11 per cent. over the prices of the seventeenth century.

Let me use another illustration: During the late war our money circulation increased substantially at least one thousand million of dollars. Did the prices of commodities increase in a corresponding ratio ? By no means. It is true, that the most immediately necessary articles, such as gunpowder, saltpeter, quinine, and quartermaster's stores rose rapidly in price and attained enormous figures, but the articles that were not in request, such as real estate, &c, were for a long time a drug in the market. Then there were other commodities that rose in price because heavy duties were levied upon them —whiskey, tobacco, dry goods, and drugs; and labor rose in price, and caused all articles, in the manufacture of which labor was employed, to rise in price, because our army withdrew so many hands from employment.

Still another illustration: the price of wheat in France ranged from 1680 to 1797 —a period in which most extraordinary additions were made to the money* of the world— from $6.10 per *setier*, to $5.77, the lowest rate being $2.37 in 1723.

It would be unnecessary to say so much on this subject were it not that a great number of our American legislators, who in the last Congress essayed to discuss our national finances in advocacy of an early return to specie payments, and of a repeal of the legal tender act, have insisted that an increase of currency must be followed by higher prices, and that the true policy of the government is, therefore, to contract the circulating medium and thus reduce the cost of living. Had their counsels been listened to, the prices of commodities would be as high as ever, and our circulating money

* See Colwell's *Ways and Means of Payment*, p. 563.

still less than it is now. Business would have been only half what it is at present; but the cost of living would have been the same, and the result would have been pauperism and repudiation, or a revolution.

Probably the best authority on this subject of prices is Mr. Thomas Tooke, a prominent merchant of London, and author of *A History of Prices and the State of Circulation, from* 1793 *to* 1858, a work equally distinguished for the comprehensiveness of its general views, which have never been refuted, and the accuracy of its practical details, which has never been questioned. In that work Mr. Tooke emphatically denies that currency regulates prices. He gives tabular statements of the prices of forty different articles, four times a year, from 1782 to 1840, and remarks that "there is not, so far as I have been enabled to discover, any single commodity in the whole range of articles embraced in the most extensive list of prices, the variations of which do not admit of being distinctly accounted for by other circumstances." He adds, elsewhere, "that these circumstances operate sometimes so forcibly as to reduce prices in the face of an expanding currency, and to advance prices when the currency is diminishing." This language has all the more force, as the period investigated by Mr. Tooke was characterized by great fluctuations of prices and great changes in the quantity of paper currency.

> "If anything of fact or authority had been wanting to overthrow the doctrine of a proportion between the quantity of circulating medium and prices, it has been amply furnished in the addition which has been made to the metallic medium since the discoveries of the gold mines of California and Australia. The annual proportion of gold has, within the last ten years increased five-fold. The first effect of this extraordinary influx was an increase of exports to the gold-producing countries. Commerce experienced a great impetus, and, of course, prices were affected by increased demand and greater activity; a considerable advance took place: but whether that advance would average ten or thirty per cent. It would require much investigation to ascertain. How much of this advance could be attributed to the mere increase of money no one could pretend to say; but no observer could fail to see that the enhanced prices were to be ascribed chiefly to the increased activity of trade. Certain it is, that the rise in prices maintained no proportion with the increased production in gold. This is as true of the United States as of Europe. Something like such an advance occurred in California; but that rise was clearly owing to the condition of a new territory, in which the demand for labor" —and the necessaries of life, as I have shown— "was, for a time, far beyond the supply. Prices there were clearly not determined by the quantity of gold, but evidently by the quantity of the article, which the holders of the gold wished to purchase. It is known that, as laborers and the commodities of consumption increased, the prices gradually fell, although the production of gold was increasing. It is probable, that general prices in California, fell fifty per cent. during a period in which the production of gold increased 100 per cent." ---Colwell, *Ways and Means of Payment*, pp. 573-4.

I may further add, that although in the United States money circulation, coin, banknotes, etc., increased from $310,235,721 in the year 1848, to $641,748,862 in 1856 —nearly doubling itself, therefore— prices advanced very little; and whatever advance took place is explainable from other causes than the increase of money.

There is no financial theory more generally mischievous than the supposition that the amount of a circulating currency affects the prices of commodities, and no theory so much in favor with dabblers in a science of which they know nothing, or, what is worse, but little. This, however, does not affect at all my proposition, that there must be a sufficiency of currency in circulation to supply the needs of all those parts of a country where money of account cannot be a substitute for actual money, as I have shown above, which is especially the case in a country so extensive as the United States, a large portion of which is but thinly populated, and has therefore no banks to create[$] an artificial money. That our present volume of currency is insufficient to meet this requirement must be apparent to any one who does not willfully close his eyes to the existing financial distress. But even in large cities, where banking facilities are developed to the utmost, it is necessary that a large amount of actual money should constantly be kept on hand. Let me explain this necessity by quoting the following from Mr. Patterson's *Economy of Capital*:

> "It is extraordinary to mark what a small variation in the amount of the currency suffices to produce the changes in our measure of value (money), and which equally would suffice to prevent them. The currency of the United Kingdom amounts to fully £150,000,000 (1864), yet the variations, which occasion our calamities seldom exceed five or six millions. This seems a strange fact. It happens in this way: By far the greater portion of our currency (amounting to about £100,000,000), is in constant use in carrying on the retail operations of daily life. It is constantly passing from hand to hand, and accordingly is not available for any other purpose. It is only the portion of our money which is kept in the banks (about forty millions), that is available for the discount operations by which trade is carried on. Or rather, it is only a portion of this money that is so available —only the surplus portion which remains after the banks have made provision for the usual requirements of their depositors. It is this portion of our currency alone which is available to meet variations in the monetary requirements of the community. To withdraw five millions from a currency of one hundred and fifty millions, is in itself a trifle; but when that diminution takes effect wholly upon this small portion of the currency, the effect produced is very great. An alteration of five per cent. in the quantity of the currency is thus made to alter its value to five or six times that extent." ---*Economy of Capital*, pp. 290-291.

Most of my readers will remember, that the same phenomenon occurs here every once and a while. A few bold speculators in New York, who have calculated how much of the actual currency of the country is distributed over the various sections of the United States, and how much there is held by the New York banks, and who have found the situation favorable for their scheme, club together to "make money scarce." They know exactly what amount of greenbacks the New York banks hold, and what amount they need for the daily requirements of their depositors. Deducting the latter from the former they obtain the surplus, upon which to speculate. Let us assume that surplus to be ten millions, an amount which can do the work of a hundred million dollars and more a day if held by the

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$ If banks are allowed to create money, they will do more than that. They will take over the whole field of finance.

banks and employed by them for other purposes than the needs of their depositors, that is, for outsiders. The clique thereupon begin to borrow the money from the banks on whatever security they have, but instead of redepositing it, and thus keeping it in circulation, they carefully lock it up, where it cannot be touched. All at once the banks discover that this surplus money has vanished. They telegraph, perhaps, to Boston and Philadelphia for currency, but find that the clique has operated in those cities in the same quiet way. General consternation ensues. The New York banks are unable to accommodate their outside customers, mostly stock-brokers; the stock-brokers in despair, bid one per cent. per day, two per cent. interest per day —and still there is no money forthcoming. Nothing remains now for them to do but to sacrifice their property. Stocks are thrown upon the market to an alarming amount, prices fall five, ten, twenty per cent. a day; a general panic sets in; and though it may be confined to Wall street, it may also extend to the banks, and thence to the commerce and industry of the country, producing universal ruin; the clique meanwhile pocketing the profits resulting from their having sold stocks "short" when the prices were high and when they began to "lock up money," and "bought them again at panic prices with the then unlocked money.

If there were an abundance of actual money in circulation, such things could never happen; and it must further be considered that these paltry ten millions of actual money represent under our present system of banking, nine hundred and fifty millions of money of account. That is to say, as I have explained elsewhere, it is a demonstrated fact, that for every five dollars of actual money which a bank has on hand under our present system, it transacts one hundred dollars business. The clique, therefore, which locks up the ten millions of currency, virtually disturbs business transactions to the amount of $950,000,000. If the locking up process continues only for a few days, the banks may find means to keep things going smoothly, by carrying on those transactions without any real money basis at all; but any continuance of the pressure cannot fail to compel the banks to demand a settlement of those transactions, which means failure and bankruptcy of most of the persons engaged in them.

chapter IX.

HOW TO SUBSTITUTE ABSOLUTE MONEY FOR OUR BONDS AND NATIONAL BANK CIRCULATION.

REDEMPTION OF THE BONDS HELD BY THE NATIONAL BANKS — HELD BY PRIVATE OWNERS IN THIS COUNTRY—HELD BY FOREIGN OWNERS—WE CAN BUY FOREIGN EXCHANGE WITH AN ABSOLUTE MONEY, AND ALSO CREATE IT BY EXPORTING OUR PRODUCTS.

In regard to the way, finally, in which this national legal tender money could be put into circulation and substituted for our bonds, I can offer, of course, only general suggestions, since the practical carrying out of the scheme must be largely influenced by existing circumstances.

On the first of March, 1875, the whole of the bonded debt of the United States was as follows:

6 per cent. coin bonds	$1,151,992,500
5 per cent. coin bonds	572,137,750
Total	$1,724,130,250

The whole of the currency (legal tender), issued by the federal government was at the same time:

Legal Tender Notes	$382,072,147
Fractional Currency	44,904,963
Total	$426,977,110

The remaining floating debt of the government is too insignificant to deserve mention.

On those $1,724,130,250 of the federal bonded debt, the people of the United States are required to pay by taxation annually, the sum of $107,119,812.21 interest in coin.*

The question now is, how to substitute absolute legal tender national money for those bonds, so as to save those one hundred and seven million dollars of coin every year to the people and at the same time raise the volume of the currency of the nation, during the next fifteen years to about two thousand million dollars, or nearly twice the amount of our circulation in 1865, when it was $1,152,914,892. There can be no question, that the country now needs fully twice the amount of circulation it required ten years ago, especially when we remember that the circulation of 1865 was used chiefly in the Northern States, and that since then all the States of the South have had to be supplied with money, whilst at the same time the Northern States have so developed in commerce, industries and production as to need surely a much larger volume than was sufficient for them then.

Our own legal-tender notes and fractional currency can, as a matter of course, be cancelled and exchanged for the new absolute money at any time without any difficulty. The problem is, therefore, limited to the substitution of that money for the federal bonds and the National Bank circulation.

Of the $1,724,130,250 bonds, the National Banks of this country have deposited in the Treasury to secure their circulation, $390,421,750, which circulation, on November 1st, 1874, was $348,791,152, being about ninety per cent. of the amount of bonds deposited, as the law requires.

* Hon. Benjamin Bristow's report as Secretary of the Treasury, on the Finances, p. iv., 1874.

With the establishment of such a money system as herein proposed, the National Banks would, of course, cease to be banks of issue. They would, therefore, have to draw in their circulation, and in order to do this would be compelled to sell their bonds. As the federal government holds those bonds, and as the banks would require the new absolute money for the redemption of their notes, they could scarcely do otherwise than sell their bonds to the federal government —at a price to be agreed upon— receiving in payment the new money, and surrendering their own circulation for cancellation simultaneously with their bonds which would be cancelled also.

This process, of course, would be gradual, but it need not extend over a great length of time, and its result would be that the federal government would lessen its bonded debt about $389,000,000, bearing $23,340,000 coin interest per year, and substitute its own currency, bearing no interest, for that of the National Banks.

If the bonds now owned by the National Banks were thus redeemed by the federal government and cancelled in the mode I have described, there would remain nearly $1,400,000,000 of United States bonds outstanding. How could absolute money be substituted for them ? I do not think that any serious practical difficulties would arise. About one-half of the amount, say $700,000,000, are supposed to be held in the United States as investments. These bonds are constantly thrown upon the market in smaller or larger quantities. They could, therefore, be gradually bought up and cancelled by the government with its new money.[$]

It is of course possible, though to me it seems improbable, that the market price of these bonds would rise for a time after the establishment of the new money system. But the government could well afford to pay a handsome premium, since it would save the interest on the bonds, which would more than make up for the premium. Besides, the government need be in no hurry, and could suit its own convenience to effect the exchange.

The remaining $700,000,000 are assumed to be held in Europe, and require an annual interest of some $40,000,000 in coin. But a considerable number of these bonds, also, are constantly thrown on the New York market, where they can be gradually bought up by the government. At all events, however, our government can purchase enough of specie, and especially of foreign exchange, to pay off both the principal and the interest of those bonds without the slightest inconvenience. It is a great mistake to assume that the actual coin would be necessary to pay off our public, debt; and I once more refer to the payment of the Five Milliard Indemnity by

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$ It is now the year 1875. If Congress were populated by people who would pass such "absolute money" bill, and a President who would sign it; then this Congress could also, and in stead of, pass a bill that would declare 400 grains of pure silver the (one and only) unit of account, would allow the free coinage of silver until there is at least $35.00 silver coins per capita in existence. Such Congress would also pass a bill that would prohibit further borrowing and issuing of bonds, and use a portion of the yearly revenue to redeem outstanding bonds. Seven years from now, in 1882, the charter of the national currency banking system comes up for renewal, and such Congress would certainly not grant the continuation of the corporate existence of these banks; and they would close their operations under the supervision of the Comptroller of the Currency ---as the law prescribes.

France to Germany as a conclusive demonstration of this proposition. When we have once established an absolute national legal tender money, we shall be able to pay off that debt by all the commodities —including gold and silver— which we export to Europe. For it is not money which pays; payments are made by that which the money represents, the commodities of a nation; and money is merely an instrument of commerce to facilitate the manner of the payment.

chapter X.

RELATION OF ABSOLUTE MONEY TO NATIONAL BANKS.

Advantages of the National Banks Under the Present System — Greater Advantages for them Under the New System of — No Danger from Fear of Redemption — Perfect Freedom of Action — Larger Profits — Profits of the Scotch and English Banks —Repeal of the National Bank System a Curtailment of the Centralization of Financial Power in Congress —The Absolute National Money Scheme Invests Congress with no New Power, But restricts its Present Unlimited Power — Adoption of a new Financial Code — Blessings that Would Follow its Adoption — Concluding Remarks

I have tacitly assumed in the previous chapter, that the National Banks will offer no obstacles to the establishment of an Absolute National Money system, and their consequent severance from control and supervision by the federal government, and their discontinuance as banks of issue. In truth, I believe that they will not only consent to such a change, but heartily co-operate in bringing it about as soon as they begin to understand its operation and effect upon themselves.[$]

Under their present organization, the National Banks enjoy only two advantages. The *first* is, that, as banks of deposit and discount, their title, National Banks, gives them a certain hold upon the confidence of the people, which is strengthened by the fact that it is known they are under a constant and close supervision of the federal government in all their operations. But this object can be equally attained when they shall have become private banks, incorporated under state laws. The *second* is, that, as banks of issue, they are enabled to derive a double interest on a large part of their circulation, since they not only draw interest on that amount of their circulation which they loan out, but also on the whole amount of bonds pledged by them as security for their issue furnished them by the government. But the advantages which they would derive from severing their connection with the federal government, and ceasing to be banks of issue, are of far more weight.

First of all, they would be relieved of a federal tax, which, in 1874, amounted to $7,030,038. This is comparatively a minor matter, however. But so long as they are banks of issue, they must keep constantly on hand a reserve fund of legal tender notes for the redemption of their own issue and to secure their deposits. This reserve fund is quite an important item for the banks, and was of still greater importance before the passage of the act of June 20th, 1874. There was then required of the country banks a reserve fund of legal tender notes amounting to fifteen, and of the large city banks, or banks of redemption, a reserve fund amounting to twenty-five per cent. of their circulation and deposits. This is now changed so as to require that fifteen and twenty-five per cent., respectively, only of the deposits of those banks shall be kept in reserve; but the amount is still large enough to make

$ The National currency Banks are money corporations, organized for the sole purpose of issuing their own notes and circulating their own credit. The issuing and circulating of treasury notes would take away the reason for their existence; if they were forced to discount for treasury notes alone, that would put them out of business. Of course they would resist ! Just look at what a fight they are putting up against the use of greenbacks and silver coins !

that requirement extremely expensive; for all this reserve fund lies practically idle in the vaults of the banks. During the panic of 1873, the legal-tender notes thus locked up in the banks of redemption alone amounted on the 12th of September, to 24.9 per cent. of their circulation and deposits, and so great a fear was produced by the spectre of redemption, that by the 26th of December, the banks had increased the reserve to 28.1 per cent.; a sum bringing in no revenue to the banks, and at the same time kept out of circulation, to the great detriment of all financial operations.[$]

So long as they are quasi banks of issue, furthermore, they must labor under perpetual dread of the spectre of specie resumption. During every session of Congress this dread will haunt them daily and check all free movement. Should the present law, providing for resumption of specie payments in 1879, continue in force, every National Bank in the country will shortly be obliged to draw in its currency and provide itself with legal tender, at a rate which must reduce the circulation of the country nearly one-half of what it is now, and thus increase the present financial stringency beyond endurance. This contraction will, of course, make the business of those banks utterly unprofitable; but even that will not save them. The moment that greenbacks are divested of their legal-tender character, and gold and silver re-established as the only lawful money of the land, the faith in greenbacks will vanish as suddenly as it came, and a universal rush for the glittering metals will result. There are not two hundred million dollars of gold money in all the United States.[*] Not more than one-half of that amount would find its way into the United States treasury and the banks. And what would $100,000,000 of gold signify in the face of a paper money circulation of $730,791,152 —not to mention the deposits in all the banks, national and private, of the United States. National bankruptcy, and the suspension of every bank of issue, and nearly all the banks of discount and deposit, would be the inevitable consequences. If Congress, however, should repeal that act for the resumption of specie payments, the National Banks would still continue as heretofore to operate, with the dread of that spectre of redemption in legal-tender notes weighing upon them; whilst by ceasing to be banks of issue, and co-operating in the establishment of my system of money, they would gain a freedom of movement, which would turn out as much to their health as to their profit.

By ceasing to be quasi banks of issue, and severing their connection with the government, they would also gain the great advantage of being relieved from a number of irksome rules and regulations, to which they are now subjected by the Treasury Department at Washington; and which, while their establishment may be necessary for a proper control of the banks by the federal government, in view of the great number of these banks, and the extensiveness of the country over which they are scattered, are practi-

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$ For every one of the greenbacks they held in reserve, they were allowed to issue four of their own notes ! The problem was they extended their discounting operations beyond reason; they also extended their credit circulation beyond reason. The credit-bubble burst, as it always does, and now they had to protect themselves ---at the expense of the general public.

* Hon. Benjamin Bristow gives the amount as $166,000,000 in 1874.

cally for the banks themselves and their customers of no value whatever, and a mere annoyance and expense.

While thus being relieved from unnecessary supervision by the federal government, they would nevertheless be equally, if not more, checked in imprudent management; partly because each state would supervise the condition of the banks incorporated under its laws, which it could do far more effectually, and yet with greater justice to the banks, than the federal government can do, which must prescribe the same rules and regulations for the banks of all the states —the same rules for Portland as for Galveston, for Duluth as for San Francisco— although the banks of each section of the country operate under different circumstances; and partly because, under my system of money, the banks are guarded against being so imprudent as many of them are when they are banks of issue. They will have their capital in the national money, for which they have exchanged their bonds and bank-notes, and this capital will remain the firm, unchangeable basis of their discount operations. The most ordinary prudence in apportioning a part of their deposits to discount, in regulating the time of their loans so that they shall fall due gradually, in order that part of them will be paid in again almost every day, and in seeing that the discounts are well secured, will render them so safe that failure will be next to impossible. If the Scottish Banks, with the burden of a bank-note issue and a specie basis to sustain, have been able to operate with so unparalleled a success, that only six failures have occurred within a century, and that only two of the banks that failed have been unable to pay their depositors and redeem their circulation in full, what may not our banks achieve when relieved of the spectre of specie payment and redemption of notes, and when their only danger will be in losing the confidence of their depositors !

Nor is there any doubt, that the profits of the banks would in every way exceed the profits realized under the present system. According to Secretary Bristow's Report of 1874 (pages 142-43), the average dividends declared by the National Banks during the year September 1, 1873—September 1, 1874, upon their capital, were a small fraction less than ten per cent. —and as declared upon both the capital stock and the surplus, a fraction less than eight per cent. It will be readily acknowledged that this is a very small profit, especially in view of the fact that few of the banks pay interest on current accounts, and that on their time deposits they pay only from two to four per cent. interest. Now the Banks of Scotland pay an average interest on all their deposits, current and time, of three per cent., and yet are able — although they keep on hand a reserve averaging over thirty per cent. —to pay a dividend of from eleven to twelve per cent. on their paid up capital; while the Joint Stock Banks of England, which keep a much smaller reserve on hand, and pay less interest to their customers, can afford to pay a dividend on their capital amounting from fifteen to twenty-five per cent. It is evident, therefore, that our National Banks, if once freed from the unnecessary obstructions that now hamper them, and conducted on judicious principles of free banking, could easily double the profits they now make, and at the same time be of far greater service to the community.

By this severance of their connection with the government the National Banks would fall into line with the banks now in existence and be incorporated under the laws of their several States. We should have only one class of banks, as we should have only one kind of money, and each of those banks would be vitally interested in upholding and supporting the national money. Every argument urged in its behalf would be appreciated with special force by the managers of the institutions through whom most of the money transactions would, after all, have to be done. They would have, what they never enjoyed before, a single kind of money —in place of the multitudinous kinds we have had in the past, and have, in great part, still. Only one kind of money, subject to counterfeiting, instead of thousands of different kinds of bank notes, which must all be studied separately in order to detect counterfeits upon them. A money, current and a legal tender, of equal value in every corner of the country, subject to no fluctuation, and to no deterioration by wear. The volume of currency would be so constant in proportion to the development of the business and manufactures of the country, that the most accurate calculation could be made by the bank managers concerning their financial operations. They would never be subject to any run upon them, unless by mismanagement and flagrant imprudence they should lose the confidence of their depositors; and while thus placed in a position of far greater safety, they would nevertheless be enabled to operate with much more freedom, extend increased facilities to their customers, and earn larger profits. We should then have really that freedom of banking which Mr. Patterson so ardently desires for Great Britain, and which Mr. Gairdner (see appendix, to Part II.), claims as the prominent characteristic of Scottish banking; a freedom of banking, moreover, which would not be trammeled by the fetters of a money issue on a coin basis, with its inseparable dangers of forced redemption. And while the banks and their depositors would enjoy the blessings of free banking, the political commonwealth of the United States would get rid of the grave danger threatening from a National Banking system, under the constant control of Congress. By that separation of the National Banks from all control by the federal government, one of the most obnoxious features of the centralizing policy, to which this country has become subjected during the last fifteen years, will have been removed, and the control of their finances remitted to the people of the several States, to be managed for their own best interests. We shall no longer be troubled at every session of Congress with speculations as to what Congress may do, or may not do, in the way of amending the National Banking Act, and thus interfering with the circulation of the country; nor shall we see again agents of the National Banks thronging the lobby at Washington during every session, and squandering the money belonging to their shareholders in bribes to prevent legislation obnoxious to the banks, or push through amendments favorable to them.

If it should be objected to this, that my system of a national money would confer upon Congress even greater power to interfere with the finances of the country than that body can exercise now through amend-

ments of the National Banking Act, I reply, what I have already urged before, that the only power which my system would give to Congress, would be to increase the volume of circulation. It could never decrease it. But three things must be remembered in regard to the power of Congress to make that increase.

1. After the establishment of that system, and after the national money shall have been substituted for our public debt in the manner explained by me in the previous chapter, Congress can, under ordinary circumstances, increase the volume of currency only upon the report of the Board of Commissioners, mentioned elsewhere, stating that such an increase is necessary, and the amount which is necessary to meet the requirements of trade.

2. Whilst under extraordinary circumstances Congress certainly could increase the currency, it would, in so doing, exercise no power especially conferred upon it by my system, but a power inherent in it as the representative of the sovereignty of the nation, and especially granted to it by the constitution. If, for instance, another war should be forced upon us, Congress certainly would have the right to issue, say five hundred millions more of currency, just as it issued our present legal tender circulation during the late civil war. But would that disturb our finances any more than if Congress were to issue a thousand million dollars in bonds, sell those bonds in Europe at fifty cents on the dollar, as was done in 1864, and in this roundabout and ruinously expensive way, likewise increase our money medium by five hundred millions ? Is it not apparent to the dullest eye, that the effect upon the finances would be the same in either case, so far as an increase of the circulation were concerned, whilst my proposed method of meeting such an emergency would save the nation five hundred millions immediately in escaping the discount, and sixty millions every year in interest. Far from according Congress, therefore, more power than it holds now, my system would restrain that power within safer limits than now exist.

3. Congress would be very little disposed to increase the volume of our circulation in ordinary times, and thus interfere with our financial condition, however much it may now be ready to interfere with it indirectly by tinkering at the National Banking system. For in the latter case, should such interference result disastrously, Congress could always throw the blame upon the National Banks, as it usually has done, whilst in the former case it would make itself directly responsible to the people.

All the objections urged against the establishment of the absolute national money system thus fall in every case to the ground, and in rebounding, like the boomerangs of the Australians, end only in striking the present rotten system, in defence of which they are urged forward.

The positive advantage of my system, however, and the great blessings which it would spread in all directions, remain beyond the reach of assail. Let me recapitulate some of them.

1. It would unite the people of the United States by ties even stronger than those of historical tradition and nationality.

2. It would at the same time abolish a dangerous centralization of financial power as it now exists in the federal Congress, and restore absolute freedom of banking to the people of the several States.

3. It would free us from financial leading-strings of foreign countries, and thus make us what now we merely pretend to be —a free and independent nation.

4. It would extinguish our national debt and prevent the incurrence of any new public debt in the future.

5. It would relieve us from the main burden of our taxation, and thus make possible the abolition of the Internal Revenue and Tariff systems, and the introduction of absolute Free Trade.

6. It would furnish us with a uniform and elastic legal tender money, subject to no fluctuation or change of value, and yet accommodating itself always to the requirements of the country.

7. It would relieve the present insufficiency of our money circulation, and thus lower the rate of interest and compel the employment of the money in aiding the development of all our industries.

8. It would abolish the cumbersome, expensive and unstable specie money, and substitute in its place the safest, most convenient and economical money medium possible.

With all these advantages so clearly pleading in favor of the adoption of my system, may I not ask for it the thorough, impartial consideration of the people of this country, of its bankers, and of our representatives in Congress, to whom the vast responsibility of deciding the future financial fate of this country, for weal or woe, has been entrusted ? We are rapidly approaching the most momentous crisis in the history of our internal development. If the Congressional Act, directing the resumption of specie payment in 1879, is not repealed, it is quite certain that national bankruptcy will occur within three years after the celebration of the centennial anniversary of the day which gave birth to this nation, and that a financial distress will extend over the whole country, which may threaten even its political unity, so lately saved from a murderous civil war. That such a result would inevitably follow the resumption of specie payments must be admitted, I believe, by every one who has read this work attentively. A continuance of our present uncertain money system, with its utter instability and inadequateness for the needs of the country, is, however, impossible. A change must take place. We need a financial constitution, if I may coin the phrase, as fixed and permanent as the political constitution which our ancestors made for us. We need it now, at once; and could a more fitting time for the inauguration of our financial freedom be conceived than the one hundredth anniversary of the day which gave us political freedom ? We have re-established our political nationality on a wider and safer basis than that upon which it rested in the early days of our republic; let us now also establish our financial nationality, and thus complete the work —which was begun a hundred years ago by the mighty men of the American revolution— in the spirit which animated them, and in the form which they pointed out for us.

APPENDIX TO PART II.

THE SCOTCH BANKS.

The Scotch banks furnish an admirable illustration of the profit and safety of banking, when conducted on proper principles and relieved from the risks and dangers attendant upon banks of issue, for although the banks of Scotland issue notes to a certain extent redeemable at the main offices, the circulation is a minor feature of their organization, and in reality is attended with no risk at all, as redemption of the notes scarcely ever occurs. The origin of the Scotch banks dates back to 1695, and is thus related by John Holland, the author of a rare work "The Ruine of the Bank of England, and all Publick Credit Inevitable," published in the year 1715. He said:

"In the autumn of the year 1695, an honest and ingenious friend of mine, a Scotch gentleman, importuned me one day to think of a bank for Scotland. I told him I had done with framing of schemes for banks, and all other publick societies, and resolved, as in some measure I had done a few years before, to lead a country life. He replied that I should have an act of Parliament upon my own conditions. Upon this I immediately drew up so much of the constitution as was necessary to be in the act, and in three or four days he brought me a formal bill drawn up in the Scotch style, and he told me that he had spoken to most of his nation that were in town, and that he had good reason to believe the bill would pass that session according to the draught, which it did accordingly.

"Upon this subscriptions were taken for twelve hundred thousand pounds Scot, which is one hundred thousand pounds sterling, and I agreed to go down to Edinburgh and stay there, and return upon my own charge; but they generously ordered a noble present to be made to my wife, more than my charge amounted to, and though they were utter strangers to a bank, yet all the time I was there the Bank of England could not pay their bills, and although we had many enemies, we obtained in about two months' time, a strange credit upon our bills."

The terms of the bank charter which Mr. Holland thus helped to push through the Scotch Parliament, were much more advantageous to its joint stock incorporators, than those of the charter which the English Parliament had passed the year before, for the organization of the Bank of England. For whereas the latter charter provided expressly, "that any persons, natives or foreigners, who shall advance to his Majesty, the sum of £1,200,000, shall have the exclusive privilege[$] of banking in England for the term of twelve years," the Scotch incorporators obtained for their bank, the exclusive privilege of banking in Scotland for twenty-one years, and without any consideration whatever; nay, with a special provision in their charter, that the bank should not lend money to "his Majesty" under a heavy penalty. Soon after its establishment, the bank of Scotland began to issue notes for £100, £50, £20, £10 and £5; and in 1704, the managers of the bank at last consented, in obedience to the general public demand, to issue notes of smaller denominations, down to one pound notes.

$ Where does the charter of the Bank of England say that ? The term "twelve years" is not in the charter, only the term "twelve hundred." The term "banking" is not in the charter. It was NOT "his majesty" it was "their majesties" William and Mary.

No other measure could have tended more to increase the popularity of the bank, for the want of universally recognized circulating money medium under £5, had been a serious evil, "a restraint upon the industry of the country for carrying on its manufactures, agriculture and trade, and for facilitating numerous small transactions." (See Lawson's *History of Banking*, p. 406). The people, particularly the poor people, wanted a money medium in such denominations as would suit their daily necessities. They did not care what it was made of, so it passed as money. For a long time brass or wooden tallies, with the stamp of the bank, were talked of for sums under £5, but notes were finally determined upon as more convenient. As an instance of financial blindness, I may here add in passing, that although this Scotch practice of issuing small notes, has proved eminently successful, and so endeared the paper money to the hearts of the people, that gold has virtually ceased to furnish the circulating money for Scotland, still the bank of England has not yet followed the Scotch practice, and English financiers are still discussing its expediency. John Law immediately perceived the great advantage of this new feature, of which he said in a letter, that it would make the Bank of Scotland "more national than either the Bank of England or that of Amsterdam, because its notes, many of which are as low as twenty shillings sterling, pass in most payments throughout the country, whereas those of the Bank of England are of little use but in London."

Not many years after the expiration of the twenty-one years, during which the Bank of Scotland enjoyed the exclusive privilege of banking in that country, other banks were gradually organized, and after a severe contest with the old bank, settled down on a footing of harmony and good understanding, which has been kept up to this day, and resulted in substituting a system of mutually protective co-operation between them, in place of the mutually aggressive system of competition. One by one joint-stock banks were established, all of them following the principles that governed the old bank in its management, and gradually extending their operations throughout the provinces. Each of these branch-banks had a local manager, and all of them act in perfect union with the parent establishment at Edinburgh, which again, were all in connection with each other, each receiving the notes of each other, and "clearing" balances every week. Subsequently the "clearing" took place twice a week, and no bank was allowed to present the notes of another bank for redemption, except on the specified "clearing" days.

All of these features have been substantially retained up to the present time. With an original subscribed capital of their own, the business of these banks consists in receiving deposits, for all of which they allow interest, discounting notes and granting cash accounts, drawing bills of exchange, and transacting all the general business of banking, besides, issuing notes for circulation from one pound upward. There are at present twelve of these banks, with nearly seven hundred branches, in all parts of Scotland, so that almost every little town is provided with one.

Their total circulation was, on the 17th of April, 1875, £5,535,118, and the gold held by them was £3,957,277. It will be seen from this, that as I have already said, the profits derived from their circulation are comparatively of small importance, as the amount exceeds that of the gold kept on hand, only by some fifteen hundred thousand pounds sterling. Their real profits, indeed,

arise purely from the legitimate banking transactions of discounting and selling exchanges, the issue of notes being more directly for the mutual convenience of the banks and their customers.

The chief cause of the exceptional success enjoyed by the Scottish banks, is owing, indeed, next to the co-operative policy which they pursue toward each other, to their systematic and untiring efforts to serve the interests of the people. Fully aware that the only reliable "basis" for banking is the possession of the confidence of the people, they make this their chief object. They keep a large amount of specie on hand though it is never called for, merely because the people have still a sort of blind reverence for metallic coins. They pay interest on every deposit, no matter how small it is, though it be left but a single day, in order to interest the poor class as much in their success as they interest the business and industrial classes in it by their liberality in discounting. This liberality, however, is accompanied by an equal share of prudence. Most of the advances made to customers are made on running accounts, which can be called in at any moment at the option of the bank, and before opening such an account, the bank enquires carefully into the financial position of its customer, and the purposes for which he needs the money, besides taking from him a bond with two sureties for the amount.

These open accounts are known in Scotland, as "cash credits," meaning a credit given to a customer on the books of the bank, upon which he can drawn to the extent agreed upon. The banks invariably advance their own bank notes on these accounts, and generally in small notes, so as to secure them a good circulation. So careful are the banks, however, in opening these accounts, that a loss on them is one of the rarest occurrences. A Mr. Blair, who was examined by a Parliamentary committee on the subject in 1826, testified: "I literally have hardly ever heard of a bad debt by cash accounts. The Bank of Scotland, I am sure, lost hardly anything in an amount of receipts and payments of hundreds of millions; they may have lost a few hundred pounds in a century."

The general advantages of the Scotch banking system, have been admirably set forth in a reply by Mr. Charles Gairdner, manager of the Union Bank of Scotland at Glasgow, to certain questions proposed to him by the *Conseil Superieur du Commerce de France*, on the subject of banking and currency. In answer to a question as to the advantages of free banking, Mr. Gairdner says: "In reply it may be stated, that the argument in favor of freedom in trade apply equally to freedom in banking; and further, that in England and Scotland, the principle of freedom in banking is now all but universally accepted. A difference of opinion exists as to the propriety of allowing all banks to issue notes, but in Scotland the right to do so is regarded as an integral and important part of the business of banking.

The advantages conferred by the system of banking pursued in Scotland, are seen:

1. In the facilities afforded to the public by the establishment of branch-banks in even the most remote districts. Money, the lever and instrument of trade, is brought to all points. At present there are nearly seven hundred banking offices in Scotland, emanating from twelve parent banks.

2. In the economy of capital so effected —the ebb and flow of the money-tide is most uniform— it being the universal practice of people, even of

the most moderate means, to lodge their money with the banks, from whence it flows out again to support trade. The cash deposits in Scotland approach sixty millions sterling. The population is about three millions.

3. In the allowance of interest by the banks on all the money held by them from the public.

4. In the advantages afforded to the industrial classes throughout the country, by means of loans and advances.

5. In the perfect security afforded to the public —there never having been an instance of a joint-stock bank in Scotland failing to pay its debts in full; and the cases in which in former times the failure of a private bank involved loss, were extremely rare.

6. In the manner whereby, through being free, the banking institutions of the country have been able to adapt themselves to the changing circumstances of the country.

If, with the adoption of my system of an absolute national money, the issuing of notes for circulation were to be entirely dissociated from the legitimate business of banks of discount and deposit, there is no reason why American banks should not soon establish a reputation equal to that of the Scotch banks, and realize profits equally large. They would then prove an unmixed blessing to the people, whilst now the frequency of bank failures impairs largely the good which they accomplish.

LIBERTY AND LAW

UNDER

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From the *Journal of Speculative Philosophy*.

This most able and scholarly quarterly, published in this country, devotes several pages of Editorial comment to Mr. Hill's book, from which we extract the following:

"It will be noticed by this index that Mr. Hill has discarded the theory of government that limits the scope of its functions to the maintenance of justice among men. He would have it also secure social well-being —nurture, if we may so call it. In the current philosophical view, the functions of nurture, social combination, and the maintenance of justice, are separated, and assigned respectively to one of the three institutions —the family, civil society, the state. It is quite evident that within the family, for instance, wherein the perpetuation of the race is cared for, a strict application of the principle of justice could not be expected. It would destroy the race if one were to treat all infants as though they were perfectly responsible beings, and with this view were to return upon them the consequences of their deeds. Nurture is the shape of a rational treatment of the race in its infantile years, and

nurture is even the predominating feature of the most rudimentary states —*e.g.* that of China. Civil society is an organism whose function is the supply of human wants —food, clothing, and shelter. In this organism, each man labors to produce a special product which he contributes to the general store (*i.e.* sells it in the market), and withdraws from the general store (*i.e.* purchases in the market) a quantity of special products measured by the value of his own contribution. Each works for all and all for each. But it is not done after the manner which Communism proposes. It is not equal contribution, neither is it equal distribution. In the family, however, there is community of goods: the wants of each are supplied from the common fund regardless of the source of the contributions to it. This is nurture. In civil society, on the other hand, each draws out of the supply created by the combined endeavor of all, only an equivalent of what he puts in. Hence each man is self-determined —receives the fruits of his own deeds. It is clear that this institution is governed by a principle which would destroy the race if it were applied within the family, and the infant were to receive only what he earned.

"Right here comes in the phase of municipal organization and public corporations. The labor of the individual in producing special products for the market is limited to such special products as may be exclusively possessed and used by others individually. But there are thousands of modes in which the welfare of society can be promoted by the application of labor to the removal of general obstacles or to the creation of general facilities: the highway, the bridge, the railroad, the canal, the aqueduct, the sewer, the useful invention, &c, &c. No single person can consume, entirely, one of such products as these. They are valuable to a whole community and to a series of generations. In order that human labor may be applied to such substantial productions as these, there must be some form of guaranty that such labor shall be remunerative; that it shall be able to convert into money its present labor, expended not for special commodities, but for the general good of the community at large, and it may be for the generations that are to come; that it shall be able to realize for itself special commodities for such general productive activity. The device invented for this purpose is the chartered corporation, a semi-political, semi-social institution. It is clear that Mr. Hill would absorb, if not all, at least the greater part of this sphere into the state itself and make it solely political. What is for the public weal shall belong to the state, is the principle set up in his book. The public health, the public education, money, highways —even the newspaper— shall come into the hands of the state.

"Mr. Hill recommends a national system of paper money, opposes the issue of interest-bearing bonds by the state, suggests an international clearing-house.

"Whatever may be said against the interference of the state in the affairs of civil society, there is no prospect of preventing such interference. A nation that refused would be speedily forced to interfere with and regulate the functions of society were it only to preserve itself from destruction. Mr. Hill sees this fact in all its scope."